

SOME PROBLEMS OF FOREIGN TRADE OF AN  
UNDERDEVELOPED COUNTRY:  
A CASE STUDY OF GHANA.

by

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PREFACE

Perhaps the most distinct feature of the economy of Ghana is that the bulk of the commodities consumed domestically, including food, are imported from overseas, while domestic production is predominantly for export. These two aspects may be viewed as mirror-images of each other, and together they form a pattern of economic activity which has prevailed in the country (and in most European colonies of Africa and Asia) throughout its history. The pattern has often been described as having risen out of the British Imperial policy of the 19th century, which was founded on the belief that the interests of the Empire would be best served by encouraging specialized production in each of the various territories comprising it and under which it fell to Ghana to concentrate on the growing of those tropical crops, chiefly cocoa, to which its climate was suited and which found a ready market in the Empire. It would perhaps be more accurate to say, however, that no serious attempt has been made until quite recently in the country to achieve economic self-sufficiency, as the profits from cultivating cocoa and other export crops have remained so high that more desirable arrangement was to specialise in their production and to utilize the high returns they yielded for importing all the goods needed for consumption.

The post-war era has seen many new nations being born with mushroom-like rapidity; and as the new nations emerged, their political and economic relationships with their former rulers underwent changes. As the President of the Republic of Ghana, Dr. Kwame Nkrumah, was fond of saying 'seek ye first the political kingdom and all the rest shall be added unto it'. The rest, among other things, being economic self-sufficiency. But what problems face these new nations, most of them poor, and having one or two crop economy?

What problems are encountered when development on social services and industrialization are attempted? What happens to the external trade of these nations, whose exports fluctuate widely in value from year to year, month to month and day to day? These are some of the problems the paper attempts to discuss. Specifically, the main theme of the paper are these: concentration of export for revenue and the effect their wide fluctuations have on the economy; an acceleration of development through government expenditure giving rise to increased incomes and the effect this has on the import function and the balance of payments.

Ghana, like many other primary producing countries, experiences fluctuations in her economy which correspond with the ups and downs of mature economies of Europe and North America. The domestic national income therefore varies to a large extent with the prices of her internationally traded primary commodities; since most of the commodities are income-elastic, any rise or fall in the demand for these commodities causes fluctuations in the export receipts and foreign exchange receipts.

Moreover, most of the commodities exported by Ghana, especially cocoa, are unresponsive to price changes, that is, they are inelastic in supply and therefore are apt to produce cobweb cycles. An attempt has been made to mitigate this cycle in that a central marketing board has been set up to buy all the exportable products from the farmers, sell them abroad, and if necessary, store the unsold portion.

The national income is closely correlated to the value of the exports, and changes in prices abroad reflect back on it. If, for instance, the price index of primary commodities in international trade declines, the price index of manufactures in international trade will rise and the terms of exchange between primary commodities and manufactured goods will become less favourable to primary producers. The balance of payments is bound to be adversely affected by adverse price changes on the world market,

disrupting or even retarding economic growth through lack of foreign exchange receipts with which Ghana can purchase capital goods from abroad.

Ghana has embarked upon economic development programmes; the First Five Year Development Plan was started in 1951; the Second Plan in 1959. The effect of this expenditure on the domestic economy is to increase the national income; but with the rise of personal income, more goods are bought from abroad which affect the balance of payments and result in running down of her international reserve account.

An interest in the circumstances surrounding this study developed from the close association of the writer with the problems of an under-developed country. At McGill further interest was stimulated by Dr. Pal (who later became my advisor) to whom full credit goes for initiating the study.

The writer would also like to thank the librarians in the Commerce Library for their great assistance, and above all for their patience in finding me the particular documents and papers bearing on the paper.

#### PLAN OF THE WORK

The study of the foreign trade of Ghana starts from 1945 to 1957. However, there are not enough data to make a detailed analysis possible, especially for the years 1945 to 1950. We shall therefore take the years 1954-57 as the period in which we shall concentrate our study but we shall make use of as much data as possible from earlier periods.

Chapter One is an introductory chapter; it is an introduction to the country, its people, climate, major segments of the economy, development trends, etc. Chapter Two deals with the subject of exports, and Chapter Three with imports. In each of these chapters, we shall devote sections to the theoretical aspects of primary producing countries common to Ghana; we shall take up detailed analysis of exports and imports and

sections will evaluate the role of exports and imports respectively.

Chapter Four analyses the balance of payments of Ghana; section One deals with the theory common to most primary producing countries, the second goes into detailed analysis. In Chapter Five we shall be concerned with the marketing arrangements set up to market exportable commodities in Ghana; we shall present arguments for and against this monopoly of export trade and draw our own conclusions.

We are abstracting from foreign aid problems for two reasons. First, because of lack of statistical data, and second, I think it would not invalidate our conclusions because in the ultimate sense the country has to rely on its own earnings for development.

In preparing this paper, I encountered many difficulties in securing up-to-date data pertaining to the economy of Ghana. This remark of paucity of statistics is offered not as an excuse but to emphasize the difficulties of research work in many underdeveloped countries. I may add that if any dogmatic statement, generalisation or lack of proper breakdown of statistics is found in the paper, that may be ascribed to the lack of data. Among other things, I have admired in my stay in Canada, the Dominion Bureau of Statistics is one, and Ghana may well follow Canada's example and establish a statistical institute.

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CHAPTER I - INTRODUCTIONTHE COUNTRY

On March 6, 1957, the territories formerly known as the Gold Coast and Togoland (under United Kingdom Trusteeship) were united and they attained independence under the name of Ghana. The date was the 113th anniversary of the signing of the Bond of 1844 whereby formal relationship between the United Kingdom and the Gold Coast was first established.

For administrative purposes the country is divided into five Regions as follows:-

The Eastern and Western Regions, Ashanti, Northern Region, and Trans-Volta Togoland.

The whole area lies between 1° 12' east and 3° 15' west longitude and 4° 45' and 11° 11' north latitude and is bounded on the south by the Gulf of Guinea, on the east by the Republic of Togoland, on the north and west by Haute Volta, and on the southern part of its western border by the Ivory Coast. The total area is approximately 92,100 square miles and is made up as follows:-<sup>1</sup>

	<u>Sq. Miles</u>
Eastern Region .....	8,750
Western Region .....	13,050
Ashanti .....	24,250
Northern Region .....	38,100
Trans-Volta Togoland.....	<u>7,950</u>
	<u>92,100</u>

Source : Handbook of Commerce and Industry, p. 6.

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<sup>1</sup> Ghana Ministry of Trade and Industries, Handbook of Commerce and Industry, Accra, October, 1958, p. 6.

### CLIMATE

The climate of Ghana resembles that of other territories lying within the tropics and near the equator. From the coast northward, however, there is considerable climatic variation that is not entirely associated with latitude for there can be marked contrast, due to local topography, between places a few miles distant and of the same latitude. In rugged hilly areas there are even recognisable features of a mountain type of climate although only in a modified form.

There are four distinct climatic regions, namely :-

The eastern coastal belt - warm and fairly dry;

The south-west corner - warm and very humid;

The forest belt - warm and humid; and

The north - hot and dry.

Rainfall is heavy in central and south-west but scanty in the north and south-east.

### POPULATION

A population census was taken in 1948 which gave the total population as 4,117,779. In mid-1957, it was estimated at 4,763,000, an increase of 15.8%. A population census was taken again in April of 1960 which gave the population as 6,690,730, an increase of about 50% since 1948. Ninety per cent of the population is African, the rest divided among Europeans, Americans, Indians, Lebanese and Syrians.<sup>2</sup> Most of the population live on agricultural farms in the rural areas; the government itself is the largest single employer, employing at 31st December, 1958, 107,065 persons in its various departments and services. Public Authorities other than government employed 30,326 persons.

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<sup>2</sup> Handbook of Commerce and Industry, *ibid*, p. 57.

The number of persons known to be engaged in wage earning employment in the private sector of the economy as at the same date was as follows:-<sup>3</sup>

Agriculture, Fishing and Forestry .....	12,606
Mining and Quarrying .....	12,008
Manufacturing .....	14,853
Construction .....	22,903
Electricity, Water & Sanitary Service.....	33
Commerce .....	24,856
Transport, Storage & Communications .....	5,513
Services .....	<u>15,180</u>
	<u>107,688</u>

Source : Handbook of Commerce and Industry, p. 30.

It was estimated in December 1953 that approximately 874,000 males of working age were gainfully employed (i.e., engaged other than in wage-earning employment) in Agriculture, Forestry and Fishing, and of this number less than a quarter was engaged in cocoa farming. This latter industry is entirely in the hands of indigenous enterprise and is conducted on a variety of profit-sharing basis.

A high proportion of the unskilled labour seeking employment in the Eastern and Western Regions and Ashanti is migrant and seasonal, coming south during the dry season from the Northern Region and surrounding French Territories and returning to their homelands in time to prepare their farms before the commencement of the local wet season. Migrant labourers are employed in all industries excluding sea-fishing and, since their object in travelling south is normally to obtain money or goods to take home with them, tend to concentrate in the main industrial areas

<sup>3</sup> Handbook of Commerce and Industry, ibid, p. 30.

where work is more plentiful and wages higher than in the rural areas. One result of this is that there is normally in these places a floating population of unskilled workers without regular employment but who are nevertheless unwilling to leave these centres to take up gainful employment which is available in the rural areas.

Whereas the Malthusian fear of population growth has relevance in such countries as India and Egypt, it is not so in Ghana. In 1954, the average population density per square kilometer in India was 115 persons, Nigeria, 34; in Ghana it was only 20.<sup>4</sup> However, it is estimated that a much higher proportion of the total population in Ghana is in younger age groups, and life expectancy is much lower. Although there are no reliable data available for Ghana, it has been estimated that the percentage of the population below 15 years of age is about 40 per cent in Africa, but only 25 per cent in the United States. And, whereas the average expectation of life of a newborn male child is about 66 years in the United States, it is as low as 35 years in tropical Africa.<sup>5</sup> In 1947, the percentage of total population between ages 15 and 64 in Africa was approximately 56 per cent.

#### AGRICULTURE

Ghana is primarily agricultural and its land is almost entirely in the hands of African smallholders. The economy of the country is based mainly on cocoa production, which provides roughly two-thirds of the country's income from exports. There are, however, other economic activities of both actual and potential importance : gold, diamonds, bauxite, manganese and timber are exported on a considerable scale. Ghana

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See United Nations, 'Demographic Yearbook, 1955', Statistical Office of the United Nations, New York, 1955, Table 1.

5 U.N. ibid, Table 32.

is largely self-supporting in foodstuffs, but practically all the manufactured goods have to be imported.

Foodstuffs for local consumption are the main preoccupation in the Northern Region, any surpluses being sent to the south. In the south, foodstuffs are grown both for subsistence and for cash sale, but the main crop is cocoa grown for export. Agricultural productivity is low in Ghana; the level of output per acre is lower than that of a rich country like the United States. The output per person in agriculture is even much lower as the density of the farm population per acre is greater and the average yield per acre is less. The average yield of crop per acre is about 9 cwt. in the whole country, and as low as 7 cwt. in the Northern Region which is the least developed part of the country.<sup>6</sup>

There are several reasons for the low agricultural productivity: inferior soils, inefficient land-use pattern, low quality of the worker as a productive agent, small amount of capital in use, inefficient techniques of production, inadequate knowledge of better methods of production, and inefficient methods of organizing agricultural production. Moreover, because of redundant or surplus labour on farms, there is what economists have come to call 'disguised unemployment' in agriculture.<sup>7</sup> Disguised unemployment is usually associated with family employment where the unit of production and the supply of labour is the family who work on their own account, not for wages. The surplus labour existing on agricultural farms can be withdrawn without reducing agricultural output and thereby raising productivity per person.

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<sup>6</sup> Ghana, Second Development Plan, Govt. Printing Office, Accra, 1959, p. 8.

<sup>7</sup> See P.T. Baur and B. S. Yamey, "Economic Progress and Occupational Distribution", *Economic Journal*, December, 1951, pp. 742-744.

As will be shown later in the Chapter, the government intends to increase agricultural yield per acre in its Second Development Plan. Before the beginning of the last decade, Ghana may be said to have had two sets of factor proportions and two sets of factor prices existing side by side in the economy. After being opened up to world markets, the country became a 'dual economy'; the export sector became an island of development but the rest of the country made little advance, and the export sector remained surrounded by subsistence conditions and inferior methods of production. This contrast is part of a system that Boeke calls a 'dual society'.<sup>9</sup>

An outstanding result of the existence of this system of dual economy has been a substantial increase in the export of Ghana --- cocoa, gold, diamonds, timber, etc.. Production for export of cocoa has grown generally at an increasing rate since the cocoa was first introduced into the country at the turn of the century, and at a rate greater than population growth. It has been estimated that cocoa production in Ghana increased over 40 times from 1905 to 1939.<sup>10</sup>

While the export sector has increased, this did not contribute much to the development of the rest of the economy; the economy merely became biased towards export production to the neglect of other requirements for development. On the one hand, foreign capital was combined with local labour and land producing exports for sale abroad, while in the subsistence sector, domestic capital (which is quite negligible) was combined with local labour and land. The export sector uses factor proportions that yield relative marginal products different from those in

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J. H. Boeke, Economics and Economic Policy of Dual Societies, Institute of Pacific Relations, New York, 1953, p. 4.

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H. Myint, "The Gains from International Trade and the Backward Countries", *Review of Economic Studies*, XVII (2) No. 58, 1954-1955, pp. 129-142.

the subsistence sector, with large differentials resulting in factor returns in the different sectors.<sup>11</sup>

We will show in the next Chapter that this dependence on exports exposes the country to the buffetings of fluctuating world market demand and prices, and the economy becomes unstable through the transmission of cyclical instability in foreign exchange receipts.

#### PER CAPITA INCOME AND INCOME DISTRIBUTION

It is an accepted fact that underdeveloped countries have low per capita income. The large absolute gap in per capita income between the rich and the poor countries can be observed in the following Table, which is based on national estimates for seventy countries.

TABLE 1

World Income Distribution in 1949

(U.S. Dollars of 1949 Purchasing Power)

	<u>Per cent of World Income</u>	<u>Per cent of World Population</u>	<u>Per Capita Income</u>
High-Income Countries	67	18	\$915
Middle-Income Countries	18	15	\$310
Low-Income Countries	15	67	\$54

Source : R. Nurkse, Problems of Capital Formation in Underdeveloped Countries, Basil Blackwell, Oxford, 1953, p. 63.

The high-income countries include the United States, Canada; the middle-income groups, Argentina, South Africa; and the low-income groups, most of Asia, Africa, the Near East and Middle East.

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Ef. E. Despres and C.P. Kindleberger, "The Mechanism for Adjustment in International Payments", American Economic Review, Papers and Proceedings, XLII, No. 2, May, 1952, pp.338-343.



In 1959, the per capita income of Ghana was estimated to be \$160,<sup>12</sup> which is more than that of India and twice as much as Nigeria, but completely below that of the United States or Canada.

Table 2 gives the data for distribution of income in Ghana.<sup>13</sup>

TABLE 2

Percentage Distribution of Geographical Money  
Income According to Economic Categories.

	Wages and Salaries	Income from Unincorporated Enterprise	Corporate Profits Before Tax	Profits of Marketing Boards	Other Income
1949/50 <sup>a</sup>	10	63 <sup>b</sup>	13	9	5 <sup>c</sup>
1950/51 <sup>a</sup>	9	65 <sup>b</sup>	11	11	4 <sup>c</sup>

a) Financial year beginning 1 April of year stated.

b) Including some wages and salaries.

c) Including export duties on cocoa, timber and mining companies.

Source : Seers and Ross, Report on Financial and Physical Problems of Development in the Gold Coast, Table 2.

Wages and salaries contribute a much smaller proportion of the geographical product, about 10 per cent. However, wage income is understated owing to the fact that indigeneous agricultural producers (mostly cocoa farmers) employ appreciable numbers of hired workers, whose wages are included in producers' incomes. Income from unincorporated enterprises is particularly important in Ghana where the greater part of output for export is produced by small-scale farmers. More than 60 per cent of total income accrues to unincorporated enterprises.<sup>14</sup>

<sup>12</sup> See Canada, Ministry of Trade and Commerce, Foreign Trade, Queen's Printer, Ottawa, August 29, 1959, p. 7.

<sup>13</sup> Dudley Seers and C.R. Ross, Report on Financial and Physical Problems of Development in the Gold Coast, Govt. Printing Dept., Accra, July, 1954, p. 33.

<sup>14</sup> Substantial proportions of income from unincorporated enterprises in Ghana are retained by the marketing boards, consequently, they are not included in these estimates. See Chapter 5.

Corporate profits represent an average of 12 per cent while marketing boards' profits average about 10 per cent.

#### STANDARD OF LIVING

Before discussing the state of industrial development in Ghana we shall in this section show how Ghana fares with other countries in economic well-being. As indicated earlier in this Chapter, if per capita income is taken as a measure of standard of living, Ghana's \$160 in 1959 falls below all Western Europe, North America and parts of Latin America.

Ghana is relatively a backward country; most of the population, especially in the Northern Region, live on subsistence level. This backwardness stems from malnutrition, low standard of health, illiteracy (70 per cent of the population are illiterates), lack of training and limited specialization in occupations and in trade. Whereas the per capita calorie intake in Canada and the United Kingdom in 1954-1955 was 3,120 and 3,230 respectively, in Ghana, it does not appear to be less than 2,000.<sup>15</sup> There are gross qualitative and quantitative deficiencies in the per capita diet, the level of calories is low, and the diet is unbalanced, being especially deficient in proteins.

The standard of living is also impaired by endemic diseases and the lack of adequate medical and hospital care. Endemic diseases, which sap energy and initiative where they do not kill, lower the productivity and affect the economy of the country. At very few hospitals in Ghana is there more than one medical officer and he carries a very heavy load. In the United States and Canada, the number of inhabitants per physician in 1951-53 was 770 and 950 respectively,<sup>16</sup> in Ghana, although there are

<sup>15</sup> See Food and Agricultural Organization of the United Nations, Yearbook of Food and Agricultural Statistics, 1955, Rome, 1956, Table 80.

<sup>16</sup> See United Nations, Statistical Yearbook 1955, New York, 1955, Table 172.

no figures available, from my own observation I can place the number to be over 3000.

High rate of illiteracy also prevents the people from acquiring certain skills and performing various types of services. The result is a large mass of unskilled labour at the bottom of the population, and a small skilled labour at the apex. The first university college was opened in 1948, while technical schools began to operate in the fifties.

Consumption of commercially produced energy provides one indirect measure of the gulf between rich and poor countries. The total installed capacity of electric energy in 1953 was 19,837,000 kilowatt-hours in the United Kingdom, 107,354,000 in the United States<sup>17</sup> but only 228,438 in Ghana.<sup>18</sup> The greater part of the generating capacity in the country and of the consumption of current is in the mining areas, where the mining companies generate their own electricity for their purpose, especially for the needs of the gold mines. However, demand for electricity apart from the mining needs has been growing at the rate of about 16 per cent from the period 1950 to 1957.<sup>19</sup>

Another feature of the backwardness of Ghana is evident in its communications system. The main railway lines run between Accra, the capital on the coast, to the hinterland of Kumasi; Accra and Takoradi, the only seaport in Ghana, and Kumasi and Takoradi. There are a number of small branch lines, one of the more important of which runs from Accra to Tema, the new modern harbour under construction.

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<sup>17</sup> U.N. ibid, Table 124.

<sup>18</sup> See Gold Coast, Ministry of Finance, Economic Survey, 1955, Office of the Government Statistician, Accra, July, 1956, Table 19.

<sup>19</sup> Economic Survey, 1955, ibid, p. 41.

In pursuant of British Colonial policy, and in keeping with the interests of British merchants, the railways were constructed to serve the rich mining and cocoa areas of Ashanti from which the produce of the land could be sent down to the coast. In 1955, the first stage of a limited conversion to diesel electric locomotives was commenced and during 1958 contracts were arranged for purchase of 24 railway locomotives, and 130 wagons and trucks from a West German concern and for a further 12 diesel electric locomotives from a British firm. The total railway mileage is 591 miles of 3' 6" gauge track.

There is a considerable network of roads, but the rapid expansion in motor transport in recent years has rendered the system inadequate. Building and maintenance has not kept pace with demand, but since 1952, there has been a steady increase in road construction and maintenance with satisfactory results. Apart from trunk roads, surfaces are very poor and the wear and tear on vehicles can be heavy. At 31st December, 1957, 4,160 miles of roads were maintained by the Public Works Department, and of this total, 1,645 miles were bitumen surfaced.<sup>20</sup>

Takoradi is the only port equipped with wharves and modern facilities. In 1957, 93 per cent of total cargo loaded passed through this port, which also handled about 62 per cent of imports.<sup>21</sup> The port at Accra, although it is a surf port, handles about 33 per cent of imports. A new modern port is being built at Tema, seventeen miles east of Accra; preparatory work on the construction of the harbour began in 1952 and it is expected that the port will be fully open for commercial use in 1961.

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<sup>20</sup> Barclays Bank D.C.O., Ghana, An Economic Survey, London, January, 1959, p.22.

<sup>21</sup> Ghana, An Economic Survey, ibid.

The number of passenger cars and buses in the country have increased considerably in the past few years. Whereas coaches and omnibuses numbered 68 in 1955, 170 in 1956, the number was 385 in 1957. Import of passenger cars rose from a total of 3,898 in 1955 to 4,741 in 1956 and 4,705 in 1957.<sup>22</sup>

#### MONEY ECONOMY

As stated earlier, the economy of Ghana can be classified into a subsistence-type and market-type of economy. In the former case, agriculture in the form of farming for home use predominates; there is very little division of labour, the extent of the market is narrow, the amount of capital investment is small and each household meets most of its needs by its own production.

The market-type of economy in contrast, is one in which specialized economic units perform different functions, the division of labour is extensive to a degree, the extent of the market is wide, the amount of capital investment is large, and each household exchanges or sells its products. In this case production is dominated by market and money relations rather than by local production for immediate consumption. It is probably true to say that the subsistence-type economy predominates in Ghana; the large rural population produce goods for their own consumption and exchanging very little for money. Hence large segments of the population remain outside the money economy. Money markets are not developed in Ghana, hence deposit banking plays a much smaller role in the economy. The Bank of Ghana was established by Ordinance only three years ago; apart from the Central Bank, there are only three commercial banks in the country. The commercial banks tend to

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<sup>22</sup> Ghana, Ministry of Finance, Economic Survey, 1957, Office of the Government Statistician, Accra, June, 1958, p. 44.

hold a very high proportion of their assets in the form of cash at hand and with banks abroad. A corollary of this high liquidity of banks is the very low levels of loans and advances, and even these loans are usually seasonal and confined to the import and export trade.

The functions of the Bank of Ghana are severely restricted because of the fact that the money market is undeveloped. The absence of a call-loans market and a bill market makes it difficult for the Central Bank to secure control over the activities of the commercial banks; open market operations are not possible and there is no active security market. Hence, the commercial banks do not generally maintain fixed rates between their cash reserves and deposits, but instead, allow considerable fluctuations in their cash ratios.

#### OVERSEAS TRADE

Total figures for Ghana's overseas trade are given in Table 3 for the pre-war year 1938 and 1945-1957. Immediately prior to the second world war, the total trade amounted to approximately £14 million; in 1957 the figure was £178. The rise in world prices in the post-war years may account for part of the increase but there has nevertheless been a very substantial advance in the volume of trade. Imports, for instance, doubled from 1950 to 1957. Table 3 shows that Ghana has maintained surpluses in its overseas trade continuously; in 1956 and 1957, however, Ghana was in deficit on its current balance of payments.<sup>23</sup>

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<sup>23</sup>

The Balance of Payments is given a fuller treatment in Chapter 4.

TABLE 3

GHANA'S TOTAL TRADE OF IMPORTS AND EXPORTS,  
1939, 1945-57

Year	I M P O R T S		E X P O R T S				Total Trade Excluding Bullion
	Merchandise Including Bullion	Bullion	M E R C H A N D I S E			Bullion	
			Total	Domestic Exports Including Bullion	Foreign Produce		
£	£	£	£	£	£	£	
1939	7,540,931	820	13,118,115	12,841,449	276,666	6,262,314	14,395,930
1945	10,549,505	156	15,686,682	15,271,770	414,912	4,087,652	22,148,379
1946	13,220,124	945	20,303,326	19,807,016	496,310	5,588,413	27,934,092
1947	22,589,690	749	27,414,959	27,000,570	414,389	4,904,180	45,099,720
1948	31,378,050	474	56,114,722	55,303,715	811,007	5,775,408	81,716,890
1949	45,416,037	16,238	49,927,114	49,073,980	853,134	6,421,559	88,905,354
1950	48,128,966	8,367	77,406,944	76,236,718	1,170,226	8,729,377	116,798,166
1951	63,793,420	24,828	91,990,397	90,000,662	1,989,735	8,578,619	147,180,370
1952	66,610,551	51,292	86,376,783	84,287,073	2,089,710	9,251,837	143,684,205
1953	73,802,866	37,855	89,943,265	87,994,071	1,949,194	9,472,114	154,236,162
1954	71,050,343	34,496	114,594,590	113,231,478	1,363,112	9,837,237	175,773,200
1955	87,876,936	39,661	95,661,391	95,158,820	502,571	9,066,814	174,431,852
1956	88,919,719	26,910	86,599,313	85,936,030	663,283	7,499,551	167,992,571
1957	96,565,154	40,973	91,599,783	90,943,742	656,041	9,801,901	178,322,063

Source : Handbook of Commerce and Industry, p. 40.

EXPORTS<sup>24</sup>

Table 4 shows the volume and value of the main items in Ghana's export trade. In the next Chapter we shall show how changes in incomes abroad affect the value of exports from Ghana. Cocoa is by far the most important of Ghana's exports, it usually accounts for well over 70% of total export value. Marked short-run fluctuations in cocoa export earnings indicate a considerable element of year-to-year instability in Ghana's export position. The extent of such savings is kept within limits, however, by the comparatively steady price and to a less extent, the volume of the other exports, especially the export of gold.

Furthermore, because such a large share of Ghana's national income is contributed by the export trade, a fairly stable trade balance is maintained through movements in income and therefore in import demand, which tend to follow the course of export earnings. However, this comparatively static condition is giving way because of increased government expenditure for development which has increased purchasing power and has tended to call for increased demand for imports.

Over the past thirteen years, the value of Ghana's exports has increased from the pre-war level of around £13.1 million to £91.5 million in 1957. The gain reflects not only price increases but also a larger volume. The export of timber, for instance, has shown a remarkable increase since 1945. The timber consists entirely of hardwoods, and after the war, the world softwood shortage led to an increased demand for hardwoods. World softwood supplies improved in 1952 and there was a consequent decline in exports but higher than the pre-war level. Since 1952 export of hardwood (other than mahogany) has exceeded the 1948 level in both amount and value.

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<sup>24</sup> See Chapter 2 for detailed analysis of exports.



TABLE 4  
 VOLUME AND VALUE OF PRINCIPAL EXPORTS  
1945 - 1957

Year	Cocoa		Gold		Diamonds		Manganese		Bauxite		Timber	
	Volume tons	Value £	Volume f. ozs	Value £	Volume carats	Value £	Volume Ton	Value £	Volume Ton	Value £	Volume cu.ft.	Value £
1945	232,229	7,143,929	474,997	4,083,722	812,450	479,406	701,750	1,976,452	146,330	467,916	2,551,674	463,333
1946	236,316	9,488,316	646,559	5,568,486	809,001	622,525	765,300	2,264,715	114,246	365,587	4,093,672	878,681
1947	180,238	16,634,133	568,471	4,895,957	747,035	746,562	588,919	2,233,039	95,898	306,874	5,221,144	1,317,644
1948	214,302	42,165,916	670,645	5,754,021	1,026,765	1,279,642	629,973	2,698,706	130,953	259,149	7,095,671	2,453,403
1949	263,602	34,018,871	656,431	6,413,825	928,943	1,497,679	741,069	4,006,079	145,013	274,857	7,539,627	2,165,551
1950	267,401	54,604,292	705,182	8,718,629	1,138,102	2,678,552	711,367	5,007,411	114,948	223,467	10,162,837	3,852,984
1951	209,526	60,309,769	692,301	8,562,326	1,763,369	6,416,651	806,080	7,216,617	129,328	226,274	9,787,372	4,911,671
1952	212,005	52,533,085	704,594	9,238,070	2,133,873	5,399,885	794,192	8,332,847	74,368	137,581	9,035,177	4,150,597
1953	236,634	56,143,022	732,636	9,458,315	2,164,262	3,924,755	745,990	8,722,222	115,075	201,383	12,784,145	5,809,582
1954	214,148	84,598,864	736,801	9,882,801	2,126,561	4,273,459	460,216	5,138,492	163,568	287,941	17,805,853	6,657,638
1955	205,875	65,558,937	789,510	9,052,165	2,277,489	5,530,146	539,948	5,192,365	116,346	203,501	23,326,056	8,079,298
1956	234,406	51,062,516	599,129	7,489,465	2,519,760	7,920,579	636,457	7,044,491	137,906	331,349	19,624,895	5,165,220
1957	260,224	50,873,407	788,015	9,794,236	2,931,652	8,979,784	641,558	8,990,197	185,445	452,126	24,545,974	5,366,762

Source: Compiled from Monthly Accounts Relating to External Trade of Ghana,  
 Office of the Government Statistician, Accra, December, 1957.

The general average of Ghana's export prices has followed a postwar course, fairly similar to that of world primary commodity prices. Individually, however, the price pattern of her principal products have shown marked divergencies from the composite picture. Gold prices maintain a reasonable degree of year-to-year stability, with a postwar trend approximately in line with world price movements. Cocoa, manganese and diamond prices are much more volatile and are subject to fluctuations.

The price of bauxite has shown a persistent decline since the end of the war; this has been attributed to the dumping practices of the Soviet Union. Cocoa, which is about seven times the value of all other exports combined, has increased in value, although on average, the volume has been about the same. The world price of cocoa rose sharply from 1947 but the volume supplied by Ghana declined. This is in part due to the inelasticity of supply in the short-run and also to the increasing production from Brazil and other West African countries.

The United Kingdom has traditionally been Ghana's best customer for its exports, taking over 50% of total exports. In the postwar years, however, the United Kingdom has been steadily losing ground to other countries, and as far as the cocoa export is concerned, the United States has become Ghana's number one customer in the 1950's. The O.E.E.C. countries, notably West Germany and the Netherlands, have increased their share of Ghana's exports in the past seven years.

#### IMPORTS<sup>25</sup>

Much of Ghana's imports are consumer goods, which represent on average, about 60% of total value of imports. The bulk of these consumer items is made up of textiles, food, drink and private motor cars. This state

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<sup>25</sup> See Chapter 3 for detailed discussion of imports.

of affairs reflects the lack of any manufacturing industries in Ghana.

Compared with immediate postwar period there has been a rise in the relative position of textiles and foodstuffs and non-durable producers' goods. Transport equipment, including road vehicles, originates wholly from abroad and now takes a considerable share of the imports. Building materials, particularly cement and corrugated iron sheets, are also imported in considerable quantities.

The overall increase in imports during the period under study has corresponded closely with the rise in wages at home as well as the increased government expenditure. The growth in overall volume of imports has shown stability in the postwar years; the growth in export volume was not accompanied by an equivalent increase in imports, partly because of inavailability of some types of supplies. The postwar volume has grown rapidly; from a low level of £10.5 million in 1945, imports reached a high record of £96.5 million in 1957. It has in fact doubled since 1950. (See Table 3).

#### BALANCE OF PAYMENTS ESTIMATES<sup>26</sup>

While trade gives rise to the major part of Ghana's payments and receipts with the rest of the world, there are other transactions of substantial importance. There are payments of profits by expatriate companies, receipts of interest on investments in London, receipts of private capital from abroad and the investment of government surplus funds in London.

#### DIRECTION OF TRADE

More than half of Ghana's import and export trade is with the Commonwealth countries and British possessions. The United Kingdom is the

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<sup>26</sup> See Chapter 4 for detailed analysis of the balance of payments.

largest single trading partner, accounting for more than a third of total trade. Other principal countries of export destination are the United States, West Germany, Netherlands and Union of South Africa.

With few exceptions, the recent direction of trade pattern remains about the same as before the war. The most notable changes have been the drop in the percentage of exports going to the United Kingdom and an increase to United States, European nations and the Soviet Union.

The import pattern has not been much more stable. From 1945-1953 the United Kingdom has consistently been the source of more than half the total imports. The remainder has been widely distributed among industrial nations. Japan has achieved the greatest increase over the prewar level and in the last three years provided the second largest group of imports. Netherlands comes third in order of importance; West Germany and the United States, whose share have been expanding greatly in the past few years, come fourth in importance.<sup>27</sup> This pattern results in Ghana's running a large surplus with the United Kingdom and the United States, combined with a considerable deficit with the rest of the world. While trade with other dollar countries has been in deficit and there are net dollar payments involved in other transactions, such as petroleum purchases, Ghana has clearly been a net dollar earner. On the other hand, Ghana runs a heavy deficit with Japan.

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<sup>27</sup> See Table 5.

TABLE 5.

## PRINCIPAL SOURCES OF SUPPLY 1939, 1950--57

£ thousands

Country of Origin	1939	1950	1951	1952	1953	1954	1955	1956	1957
<b>COMMONWEALTH COUNTRIES:—</b>									
United Kingdom ... ..	4,134	27,054	33,951	37,882	42,568	34,554	41,613	41,665	40,743
Australia ... ..	4	560	676	234	186	270	200	208	294
British East Africa ... ..	1	48	61	33	17	16	21	29	19
India ... ..	157	1,074	1,127	1,532	707	972	936	1,261	1,424
Canada and Newfoundland ... ..	68	421	591	226	546	1,150	753	931	969
Ceylon ... ..	2	14	15	18	22	21	24	19	13
Cyprus ... ..	—	2	6	8	17	15	12	21	24
Hong Kong ... ..	17	120	220	202	520	713	1,488	1,076	1,035
Jamaica ... ..	—	4	4	3	3	1	5	55	3
New Zealand ... ..	14	29	65	117	150	129	139	129	107
Nigeria ... ..	161	139	455	337	327	436	660	538	763
Sierra Leone ... ..	1	3	2	2	3	1	—	—	1
South Africa ... ..	11	682	936	842	1,015	1,162	1,530	1,213	1,496
Other Commonwealth Countries ... ..	2	256	494	199	708	309	570	720	473
<b>Total Commonwealth Countries</b>	<b>4,572</b>	<b>30,411</b>	<b>38,621</b>	<b>41,644</b>	<b>46,790</b>	<b>39,749</b>	<b>47,951</b>	<b>47,866</b>	<b>47,364</b>
<b>FOREIGN COUNTRIES:—</b>									
Austria ... ..	—	26	102	52	65	165	224	152	151
Belgium ... ..	166	434	1,410	740	460	785	1,096	1,274	1,741
Brazil ... ..	5	54	140	40	80	1	1	35	24
Czechoslovakia ... ..	72	675	704	506	664	871	1,259	1,134	1,405
Denmark ... ..	45	151	240	314	617	556	596	506	587
Egypt ... ..	3	534	138	9	12	4	5	8	1
France ... ..	72	441	746	474	533	1,267	1,259	1,534	1,681
French West Africa:						2,391	2,305	3,270	3,218
Togoland		745	857	985	723	498	543	896	915
Ivory Coast		2,119	1,286	1,187	477	48	59	82	79
Other Countries (1)		—	—	—	1,035	1,845	1,703	2,292	2,224
French Possessions, Other	26	184	142	133	162	394	284	213	322
Germany, Western (2)	375	1,174	2,730	1,987	2,328	3,426	4,392	4,512	5,318
Iraq ... ..	—	5	128	—	2	2	1	2	2
Italy ... ..	72	646	1,468	813	1,474	1,304	2,223	2,032	1,848
Japan ... ..	213	2,512	4,008	2,844	3,984	5,256	8,929	8,957	10,301
Netherlands ... ..	255	2,859	4,170	4,939	5,911	5,991	7,135	8,958	7,951
Netherlands West Indies	343	1,474	1,801	2,719	1,764	1,640	666	760	1,157
Norway ... ..	10	155	234	145	122	90	131	102	140
Portugal ... ..	31	77	107	310	415	273	638	243	416
Spain ... ..	6	28	129	64	75	151	76	39	28
Sweden ... ..	30	163	166	210	265	291	337	290	319
Switzerland ... ..	23	83	282	358	663	687	636	652	728
U.S.A. ... ..	715	2,683	3,432	4,838	3,989	2,758	3,330	3,374	4,661
Other Foreign Countries	221	496	752	1,300	1,193	1,602	2,884	2,827	5,584
<b>Total Foreign Countries</b>	<b>2,970</b>	<b>17,718</b>	<b>25,172</b>	<b>24,967</b>	<b>27,013</b>	<b>29,905</b>	<b>38,407</b>	<b>39,277</b>	<b>47,583</b>
Parcel Post ... ..	—	—	—	—	—	1,500	1,518	1,777	1,618
<b>Total Parcel Post</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,500</b>	<b>1,518</b>	<b>1,777</b>	<b>1,618</b>
<b>Total All Countries</b>	<b>7,542</b>	<b>48,129</b>	<b>63,793</b>	<b>66,611</b>	<b>73,803</b>	<b>71,155</b>	<b>87,877</b>	<b>88,920</b>	<b>96,565</b>

Source: Handbook of Commerce and Industry, p. 41.

TRADE AND PAYMENTS RESTRICTIONS

Ghana is a member of the sterling area and maintains exchange and import controls similar to those of other members. Purchases from the dollar area have been restricted in overall amount, with licenses granted only for a specific list of essential goods unobtainable elsewhere. The list and the overall allocation are determined in London on the basis of Ghana submissions.

Restrictions on imports from other countries have for the most part been relaxed, with significant exceptions of Japanese goods. During 1952 restrictions on Japanese goods were sharply heightened by Ghana, as by most other members of the sterling area, following an earlier sterling area deficit with Japan. These restrictions led to a reduction of 37.5% in Japanese goods entering Ghana in 1952.

In 1954, after Japan had negotiated an agreement with the United Kingdom calling for a substantial relaxation of restrictions by the United Kingdom and her colonies, the Ghana allocation of import licenses for Japanese goods was greatly increased. The requirement for specific licenses for Japanese goods has not been abolished, however.

In the allocation of licenses among importers, the policy of the government has been to favour the African importer. The proportion of import business for scarce goods granted to African importers has increased annually as compared with that allocated to expatriate importers.

Export controls are maintained primarily to ensure that the proceeds of the sale are repatriated to Ghana in accordance with exchange control arrangements. There is no attempt to use controls to direct exports to the dollar areas.

OVERSEAS BALANCES

Dollars earned by Ghana contribute to the dollar pool of the scheduled territories, i.e. the sterling area. Official estimates of the nominal value of total overseas balances, the bulk of which is in sterling, are as follows:-

	<u>'000's of Ghana pounds</u>
31st December 1954 .....	197,349
" " 1955 .....	211,165
" " 1956 .....	196,431
" " 1957 .....	182,622

Source: Ghana, An Economic Survey, p. 24.

These figures include funds held with the Crown Agents for Overseas Governments and Administration on Government Account, the holdings of the Ghana Cocoa Marketing Board, counterpart sterling funds for currency issued in Ghana, known sterling securities held by other official organizations but not those held by private institutions and the overseas assets of the Bank of Ghana and the commercial banks.

EXPATRIATE COMPANIES IN TRADE

Although the agricultural export goods are chiefly produced by numerous small landholders, the purchase from them used to be concentrated in the hands of small number of expatriate companies until 1951, which together with other Ghanaian firms, operate as licensed buying agents of the Marketing Boards. Since the inception of the Marketing Boards, most expatriate firms have gone out of the export markets.

It is, however, in the import business that the expatriate firms are highly concentrated. This concentration has arisen chiefly from

the great advantages derived in Ghana trade as a whole from large-scale operations backed by substantial capital. There are few facilities available for services, such as warehouses, consequently, firms which provide their own obtain a substantial advantage. Many of the goods handled are standardized and there are economies of bulk buying.

The absence of local capitalist class has necessitated the development of internal distribution of imports. As communications are poor, unusually large stocks of goods have to be carried.

The requirement for capital are further increased by the uncertainties of tropical trade, firms with small capital are likely (in fact more frequently) to be destroyed when price declines cause losses on stocks and run them short of liquid capital. Large firms, well known in London, are able to weather such crisis by borrowing abroad.

The large expatriate firms have played a very important role in the development of Ghana. Their distribution of imported goods into the interior and the far inhospitable north has been among the most potent forces in bringing about an increase in production for sale by demonstrating to the farmer the benefits he can derive therefrom. In addition, several of the firms have reinvested their profits in industrial and other enterprises in Ghana.

These firms have provided efficient marketing service and their large share in trade will continue for many years to come. But with the passing of the special conditions which gave them their initial advantages, the share of smaller firms, and in particular, of Ghanaian firms, will grow. In recent years this tendency has been encouraged by the more liberal allocation of import licenses to the smaller traders. In the future, too, government support and encouragement for the smaller traders will be justified.



## DEVELOPMENT EXPENDITURES

Before the adoption of the First Development Plan in 1951, very little real development had occurred in Ghana since 1926. In the thirties, there was the great world depression during which revenues were too low and economic prospects too bleak to support a development programme; and in the forties, there was the war and its aftermath of shortages. Thus, in addition to the normal needs of any period, there were also two decades of development to be made up.

Earlier in the Chapter we spoke about the low standard of living in Ghana; we pointed out that communications were poor and inadequate for the growing needs of the country; that facilities for social services --- health and education particularly --- were in poor conditions; that agricultural productivity per acre was low and also that much of the population live on subsistence level. Before we close this Chapter, we shall make an attempt to show the efforts being made by the government to raise the living standards of the people, which serve as a necessary background to explain foreign trade problems and prospects.

These efforts involve government expenditure in the First Development Plan which was begun in 1951, a Two-Year Consolidation Development Plan and a Second Development Plan for the period 1959-64.

### FIRST AND CONSOLIDATION DEVELOPMENT PLANS

With a view to bringing in the administrative and social services in Ghana to a high standard, two-fifths of the money available for development in the public sector has been allocated to these services during the last seven years. If the services for the maintenance of law and order are included, the proportion becomes 45 per cent. The annually recurrent

expenditure required to operate the expanded services is necessarily increasing. The provision for the educational and health services --- the two which are most costly and also most important --- was in the 1957 estimates nearly 23 per cent of the total ordinary expenditure. The increase of the annual expenditure on these two subjects between 1950/51 and 1957/58 was approximately £7.5 million: the breakdown of the First and the Consolidation Plans is as follows:-

TABLE 6  
TOTAL EXPENDITURE, FIRST AND CONSOLIDATION PLANS  
TOTAL EXPENDITURE FOR DEVELOPMENT

KIND OF SERVICE	1st DEVELOPMENT PLAN		CONSOLIDATED DEVELOPMENT PLAN		TOTAL 1st DEVELOPMENT AND CONSOLIDATION DEVELOPMENT PLAN	
	£	%	£	%	£	%
Communications	33,839,176	34.2	14,705,206	32.9	48,544,382	33.6
Other Revenue						
Producing	10,469,930	10.5	5,223,777	11.6	15,693,707	11.1
Economic	8,073,332	8.2	4,398,884	9.9	12,472,216	9.0
Advisory	2,136,883	2.2	1,199,532	2.8	3,336,420	2.5
Sub-Total	54,519,321	55.2	25,527,399	57.2	80,046,720	56.2
Law and Order	5,137,886	5.3	1,421,942	3.1	6,559,828	4.2
Social Service	26,094,507	26.4	12,310,136	27.6	38,404,643	27.0
Administration and General	13,099,589	13.1	5,414,991	12.1	18,514,580	12.6
Sub-Total	44,331,982	44.8	19,147,069	42.8	63,479,051	43.8
Grand Total	98,851,303	100.	44,674,468	100.	143,525,771	100.

Source : Economic Survey, 1957, Table 29.

The lion's share of the funds available went to the improvement of communications as a necessary foundation for economic growth. The other prominent feature of the Plans, taken as a whole, was the provision for developing education at all levels. About £10 million was allocated for the development of the University College of Ghana and the Kumasi College of Technology, and nearly £1 million for scholarships to enable Ghanaians to secure higher education and professional qualifications. Nearly £890,000 was allocated for the development of technical institutes and trade schools, secondary education (other than technical) has called for over £1.5 million, and teacher training, upon which the expansion of primary education depends, for nearly £1.2 million.

The total spent on facilities for improving the health of the people exceeded £5.0 million by June 1958. The biggest item by far was the construction of the Kumasi Hospital at a cost of £2.7 million; improvements of the existing hospitals at Accra and elsewhere, new hospitals in the Northern Region and Trans-Volta Togoland, grants for mission hospitals, nurses' training colleges and hostels, health centres and a variety of other facilities and equipment were provided at a cost of nearly £2.4 million.

Perhaps it will be better to expand the essential details of the two Plans; we shall therefore take communications, health and education and expand the detailed expenditures on these.

#### COMMUNICATIONS

The state of communications has already been described, much progress has been made since 1951 in making the transport system of Ghana adequate to an expanding economy. Over £8.0 million has been spent on

railways excluding those required for the Tema project and a further £2.3 million on the Tema railway.<sup>28</sup> The improvement of post and telecommunications required over £1.6 million in the First Plan period and a further £409,000 in the Consolidation Plan period; the posts and telecommunications required for Tema added a further £63,000 in 1957/58.<sup>29</sup>

To improve the road system in the country, and to bring it up to date, Ghana has spent a much bigger sum, over £15.0 million in the six years from 1951 up to June, 1957, and more than £2.0 million more in 1957/58 on roads and bridges, of which about half represents the construction of new roads and a further quarter the improvement of existing roads. Development expenditure on roads is given in the accompanying Table:-

TABLE 7  
DEVELOPMENT EXPENDITURE ON ROADS

	First Development Plan		Consolidation Development Plan		Total Expenditure 1951 - 1958 Col.2+Col.4 (5)
	Project Total (1)	Expenditure to 30th June 1957 (2)	Project Total (3)	Expenditure 1.7.57 to 30.6.58 (4)	
New Road Construction: General	7,175,512	7,040,681	1,913,557	1,205,157	8,245,838
New Road Construction: Tema (1)	267,658	266,753	-	-	266,753
Road Improvement	4,423,926	4,223,978	1,136,610	400,610	4,624,588
New Bridge Construction	1,345,174	1,234,085	204,619	202,322	1,436,407
Replacement of Sub-standard bridges	344,880	307,197	162,525	158,000	465,197
Other, including surveys and mechanical road construction units	2,076,224	2,016,805	1,341,801	333,000	2,349,805
Temporary addition to rates of pay (2)	151,197	59,125	-	-	59,125
<b>Total</b>	<b>15,774,571</b>	<b>15,148,624</b>	<b>4,759,112</b>	<b>2,299,089</b>	<b>17,447,713</b>

- (1) From Reserve Development Fund separate from First and Consolidation Development Plans.
- (2) The sum for Temporary Addition to Rates of Pay cannot be readily distributed between the items before July, 1957, but thereafter is included in the individual project totals and expenditure.

Source : Economic Survey 1957, Table 30.

<sup>28</sup> Economic Survey, 1955, op. cit., p.53.

<sup>29</sup> Economic Survey, 1955, ibid.

### SOCIAL SERVICES

Health and education were major features of both the First and the Consolidation Plan periods. In the First Plan period, over £5.0 million was spent on the improvement of health conditions, through the construction of hospitals, the extension and improvement of existing hospitals, the development of health centres and medical field units, the creation of facilities for nurses' training, the control of tsetse-fly and other measures. In the Consolidation Plan, provision was made for the further improvement of Korle Bu Hospital at Accra and for a new Mental Hospital, for district hospital extensions, health campaigns and other requirements.

By the end of 1958 a nurses' hostel had been completed at Sekondi, and a new hospital at Adidome, the buildings for a Regional Medical Store at Tamale, and a new X-ray and physiotherapy departments, pathological laboratory, dental clinics, medical stores and maintenance workshops at Korle Bu Hospital. In 1958, work continued on the improvement of Korle Bu Hospital, where a new 160-bed Maternity Hospital and a new 160-bed Children's Hospital were begun. Extensions to existing hospitals were undertaken and a headquarters for the Medical Field Units in the Eastern Region was constructed.

There are staff shortages, particularly in the medical and nursing grades; but the improvement of facilities has led to an expansion of services reflected in the increase of annually recurrent expenditure from £1.2 million in 1950/51 to £3.1 million in 1957/58. The capital cost of a hospital was in 1950 about five times the annually recurrent cost of its operation, it was by 1958 four times the annually recurrent cost mainly because of the improved facilities provided.<sup>30</sup>

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<sup>30</sup> Economic Survey, 1957, op. cit., p. 58.

Considerable progress has been made in the campaign against the main endemic diseases, such as malaria, yaws, leprosy and considerable assistance has been obtained from the World Health Organization of the United Nations.

Capital expenditure on health services from the period 1951 to 1958 is given in the following Table:-

TABLE 8  
EXPENDITURE ON HEALTH SERVICES

	First Development Plan		Consolidation Development Plan		Total Expenditure 1951 - 1958 Col.2 + Col.4 (5)
	Project Total (1)	Expenditure to 30th June 1957 (2)	Project Total (3)	Expenditure 1.7.57 to 30.6.58 (4)	
Kumae: Central Hospital	2,773,000	2,643,038	100,000	100,000	2,743,038
Accra Central Hospital	-	-	382,990	28,968	28,968
Tema Hospital (1)	210,000	201,260	-	8,740	210,000
Ankafal Mental Hospital	-	-	203,000	8,000	8,000
Hospital Extensions	519,510	305,032	102,748	45,248	350,280
Other Hospitals	926,931	914,490	517,001	17,001	931,491
Leprosaris	157,070	156,843	196	196	157,039
Medical Field Units & Health Centres	201,204	194,278	243,679	228,179	422,457
Nurses' Accommodation & Training	178,128	160,389	23,593	23,593	183,982
Schools	-	-	92,000	10,000	10,000
Health Campaigns	-	-	71,093	30,343	328,753
Other	326,180	298,410	-	-	6,638
Temporary Addition to Rates of Pay (2)	44,525	6,638	-	-	6,638
<b>Total</b>	<b>5,336,548</b>	<b>4,880,378</b>	<b>1,736,300</b>	<b>500,268</b>	<b>5,380,646</b>

(1) From Reserve Development Plan, separate from First and Consolidation Development Plan.

(2) The sum for Temporary Additions to Rates of Pay cannot readily be distributed between the items before July 1957, but thereafter is included in the individual project totals and expenditures.

Source : Economic Survey, 1957, Table 32.

The development of education took over £12.3 million by the end of June, 1957. The provision made in the Consolidation Plan was mainly for the further development of the University College of Ghana (£2.9 million) and of the Kumasi College of Technology (£348,000). Much of the building programme of the University College was completed and 422 students were in residence by the end of 1957. Good progress has also been made on the buildings of the College of Technology, where 610 students were in residence in the same period.<sup>31</sup>

A total of £2.5 million was made available for school building in the development estimates for 1957/58, including £244,797 for the building of primary and secondary schools in the Northern Region, where the local authorities were still unable to provide adequate funds.

The education system has expanded since 1951 and enrollment reached a new record total of 617,472 in schools in receipt of public funds; the number of children entering Primary Class 1 rose to 116,000 and the enrollment in primary schools rose to 456,000 and in middle schools to 115,800 in 1957.<sup>32</sup>

As a result of the development in education which has taken place since 1951, government expenditure on primary, middle and secondary schools and training colleges has risen from £2.0 million to £4.5 million. Nearly all of this is spent on teachers' salaries.<sup>33</sup> A new Technical Institute was opened in Accra and at the end of 1957, a total of 3,000 students were studying in technical institutes and trade schools, of whom 1,300 were attending evening classes. In the past, the majority of the students have been trained in the building trades but the emphasis is now on the engineering trades to meet the demands of industry.

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<sup>31</sup> Economic Survey, 1957, op. cit., p. 58.

<sup>32</sup> Economic Survey, 1957, ibid.

<sup>33</sup> Economic Survey, 1957, ibid.

For a training of a kind which is still not available in Ghana, a large number of scholarships have been awarded by the government, by the Cocoa Marketing Board, by private firms and by other governments or international organizations. The number of persons studying either in Ghana or abroad rose from 500 at the beginning of 1951 to over 1,300 at the beginning of 1958.<sup>34</sup>

Over £683,000 was earmarked by the Ministry of Education in the First Plan period and £120,000 was provided in the estimates for 1957/58 for government scholarships. The overseas awards cover a wide range of subjects: in 1958, the studies predominating were Medicine and Public Health (249 awards), Engineering (104 awards) Law (72 awards), and Agriculture, Veterinary Science and Forestry ( a combined total of 75 awards). The local awards were predominantly for Arts courses at the University College (139 awards) and Engineering and Pre-Engineering courses at the College of Technology (113 awards). There were also 55 awards for general science courses and 24 awards in agriculture at the University College and 20 awards for courses in agriculture at the College of Technology.<sup>35</sup>

Statistics for education development from 1951 to 1957 are given in Table 9.

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<sup>34</sup> Economic Survey, 1957, *ibid.* p. 59

<sup>35</sup> Economic Survey, 1957, *ibid.*, p. 59.



TABLE 9  
EXPENDITURE ON EDUCATION

Project	Planned Expenditure April, 1951 to June 1957 £	No. of <sup>(1)</sup> Pupils Enrolled December 1950	No. of <sup>(1)</sup> Teachers December 1950	No. of Pupils to be accommodated by Plan Period	Expenditure 1st April 1951 to 30th June 1957 £	No. of <sup>(2)</sup> Pupils Enrolled February 1957	No. of <sup>(3)</sup> Teachers February 1957
Primary School <sup>(4)</sup>	235,796	266,850	8,840	490,000	235,626	571,580	18,492
Secondary School	1,474,507	2,776	450	5,620	1,458,342	9,860	
Teacher Training Colleges	1,303,096	1,776	220	3,500	1,242,013	3,729	
Trade & Technical Schools	888,693	266		1,320	827,505	2,720	1,294
University College	3,915,000	211	70	700	3,915,000	317	
Kumasi College	3,009,100			1,280	3,009,100	610	
Scholarships <sup>(5)</sup>	872,856	489			683,103	1,189	
Local Authorities in Northern Region <sup>(4)</sup>	722,933	5,100	170		721,386		
Other <sup>(6)</sup>	300,779				223,828		
<b>Total</b>	<b>12,722,760</b>		<b>9,750</b>		<b>12,315,903</b>		<b>19,786</b>

- (1) Including pupils and teachers respectively in private school subsequently taken over by the government.  
(2) Excluding pupils in private institutions.  
(3) Excluding staff in private institutions.  
(4) Capital grants to municipal authorities, and local authorities, in the Northern Region.  
(5) This includes scholarships for overseas, local and departmental awards.  
(6) Including Libraries.

Source : Economic Survey, 1957, Table 33.

SECOND DEVELOPMENT PLAN, 1959-64

The Second Development Plan calls for the sum of £250 million for general development. In addition, the government has earmarked the sum of £100 million as contribution to the Volta River Project which is discussed later on in the Chapter.

The Second Plan, like the First, lays emphasis on communication, social services, industry, agriculture and natural resources. Prominent in the Second Plan is the expenditure earmarked to improve agriculture and natural resources, as well as industry. Although Ghana is, and will probably remain an agricultural country, the government is determined to develop to the maximum its potential for industrialization which will not only be based on the processing of agricultural products and the exploitation of mineral resources, but also on the manufacture and fabrication of all products for which there is a market in Ghana and which will assist in the balance of payments.

The breakdown of the overall plan is shown in the following Table :-

Table 10

TOTAL EXPENDITURE, SECOND DEVELOPMENT  
PLAN

	<u>£'000</u>
Agriculture and Natural Resources .....	24,668
Industry and Trade .....	25,331
Electricity .....	8,765
Communications .....	53,010
Local and Regional Government .....	18,852
Education .....	27,852
Information and Broadcasting .....	2,677
Housing .....	17,000
Health, Sanitation and Water Supplies.....	43,650
Police and Prisons .....	7,677
Miscellaneous .....	13,684
Contingencies .....	<u>6,834</u>
<u>Total</u> .....	<u>250,000</u>

Source: Second Development Plan, p. 1.

We shall in this section discuss in detail the expenditure earmarked for the improvement of agriculture and industry.

#### AGRICULTURE AND NATURAL RESOURCES

At least two-thirds of the working population in Ghana live by agriculture, which also contributes the greater part of the country's national income and foreign earnings. Nothing is more important than that agriculture should become a highly efficient productive occupation.

Recent developments add urgency to the modernization of agriculture; first, the extension of primary education has stimulated a flow of young people to towns, which will be stemmed only when agriculture is able to offer these people opportunities as stimulating and as profitable as are offered by urban employment; secondly, rapid urbanization is causing the demand for food in the towns to grow and to change in composition. The demand has resulted in the import of food being doubled during the past seven years,<sup>36</sup> thus creating a severe strain on the balance of payments. Ghana's agriculture must produce more livestock products, and cheaper cereals, competitive with wheat.

Accordingly, the programme for agricultural improvement calls for six main targets during the Plan period. The six targets are as follows:-<sup>37</sup>

- (1) To raise the yields of the cocoa industry;
- (2) To establish large acreages in rubber and bananas in the wet south-west;
- (3) To establish the foundations of the cattle industry;
- (4) To raise the yield of cereals in the Northern Region;
- (5) To bring the Volta flood plain under irrigation ;
- (6) To study and promote the use of fertilizers.

<sup>36</sup> See Chapter Three for detailed analysis of imports.

<sup>37</sup> Second Development Plan, op. cit., p. 4.

In addition to these six projects, there are certain other activities for which there are special allocations. These include the activities of the Agricultural Department, promoting the cultivation of various crops, e.g., coffee, oil palms and yams, research and education. In all the total expected expenditure will be £24.7 million, 10 per cent of the total Plan cost.

The detailed expenditure on agriculture and natural resources are as follows:-

TABLE 11

TOTAL EXPENDITURE, AGRICULTURE AND NATURAL RESOURCES

<u>Project</u>	<u>Total Plan (£'000)</u>
Agriculture	12,973
Agricultural Credit	1,000
Animal Health	2,499
Forestry	1,502
Fisheries	500
Co-operation	194
Agricultural Development Corporation	<u>6,000</u>
<u>Total</u>	<u>24,688</u>

Source: Second Development Plan, p. 65

INDUSTRY AND TRADE

Specially high priority will be given within the Plan period to promoting the establishment of not less than 600 factories of varying size producing a range of over 100 different products.<sup>38</sup> First, it is necessary to meet the rapidly growing demand for manufactured commodities.

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<sup>38</sup> Second Development Plan, ibid., p. 73.

Imports of consumer goods have been increasing sharply in recent years, at the cost of Ghana's balance of payments, and will continue to grow unless domestic production is adequately expanded.

Secondly, as we have pointed out earlier, the extension of primary education all over the country has greatly increased the number of young people seeking work in the towns, for whom industrialization would provide the most productive employment. Thirdly, the policies of the First and Consolidation Plans have succeeded in preparing a good framework for industrialization in the form of adequate public services (electricity, water, transport, telephones, technical training, etc.), so the country is now ready to make a substantial leap forward in this sphere. And fourthly, industrialization will contribute towards the diversification of the economy, which is so obviously necessary.

Ghana requires both capital and know-how for substantial industrialization. The principal agents of industrialization during the Plan period will be foreign private firms, aid to African business and government participation in the activities of the Industrial Development Corporation. The Industrial Development Corporation was established in 1947 and operates under government ordinance; its function is the promotion of local industries and handicrafts. It is the responsibility of the Industrial Promotion Division of the Ministry of Trade and Industries to deal with all matters in connection with the establishment of new industrial projects in the country. To assist and promote the development of new industries, an important and generous relief is given to 'pioneer companies', that is, companies formed to carry on an industry which is declared a pioneer industry. New industrial enterprises may apply for this relief and the maximum concession given is a 'tax holiday' for five years, i.e., exemption from tax on profits.

The summary of the detailed lists of projects in industry and trade is given in Table 12.

TABLE 12

TOTAL EXPENDITURE, INDUSTRY AND TRADE

<u>Project</u>	<u>Total Plan (£'000)</u>
Industries (Govt. Investment in I.D.C., Hotels, etc.).....	15,000
Ghana Commercial Bank .....	300
Aid to African Business .....	1,000
Industrial Promotion .....	500
Commercial Development, Accra.....	5,000
Diamond Market Building .....	50
Tourism and Casino Project.....	1,450
Geological Survey .....	1,798
Mines Inspectorate .....	86
Labour Department .....	<u>147</u>
<u>Total</u> .....	<u>25,331</u>

Source: Second Development Plan, p. 73

Expenditure for the promotion of industry and trade takes about 11 per cent of the total Plan cost as against 5 per cent in the First Plan.

THE VOLTA RIVER PROJECT

The development of the Volta River Project is part of the Second Development Plan, but is treated as a separate financial and administrative exercise. The potential for hydro-electric power in Ghana was exhaustively examined by the Volta River Preparatory Commission which published its report in 1955. This examination was limited to major projects

which would provide power sufficient to develop the aluminium industry from the extensive bauxite in the country.

In October, 1958, the Kaiser Industries Corporation of America was engaged to carry out a reassessment survey to examine the possibility of reducing the cost of the hydro-electric power scheme and also the possibility of proceeding with these hydro-electric projects without the development of the aluminium industry. In the past, the development of the major hydro-electric projects has been dependent entirely on the development of the aluminium industry. One of the tasks of the reassessment survey was to examine means of implementing this project and using the resultant electric power for purposes other than the aluminium industry. The government has by no means abandoned the prospect of using the hydro-electric power for the development of an aluminium industry, on the contrary, it is intended to develop this industry just as soon as possible. Nevertheless, the government is not now prepared to limit the prospects of developing the major hydro-electric power projects by making them dependent on the establishment of an aluminium industry and is determined, therefore, to develop the hydro-electric potential in Ghana to its maximum during the present Plan period.

The government's ultimate aim is to attempt the total electrification of Ghana, while the immediate aim is to use hydro-electric power to provide electricity to as many areas as possible at cheap rates, especially to industrial projects.

The economy of Ghana will assume an entirely different character if and when the Volta River Project is financed, but at the moment financing possibilities seem remote. The idea of the Project, however, will not be abandoned in Ghana because it is an important element in the economic thinking of the government. In the Second Development Plan, the government

has earmarked the sum of £100 million towards the implementation of the Project. The whole scheme was estimated (in 1955 costs) to cost £578.8 million; the government intends to seek international loans to finance the Project.



CHAPTER TWO - ANALYSIS OF EXPORTS

FLUCTUATIONS IN EXPORTS AND NATIONAL INCOME

The structure of the national income of a country is made up of consumption, domestic private investment, government expenditures, and exports. If we accept Keynes' assumption that the consumption function is relatively stable in the short run, we can then select investment, government expenditures and exports, in the generally accepted belief that these variables present the most convenient focus for studying the economic forces that are the causes of income fluctuations.

In most underdeveloped countries, exports form an important source of income. Exports in these countries are much larger than investment or government expenditures, while in the mature economies of the United States and United Kingdom, the relative positions are reversed.<sup>1</sup> Since domestic private investment and government expenditures are much smaller, exports appear to be the main determinant of the national income.

Most poor countries tend to be foreign trade-oriented, that is, the market sectors of their economies rely on the production of a few primary products which usually are almost entirely exported to foreign markets. The ratio of this export production to total output is normally high; Table 13 indicates this dependence on exports in selected poor countries.

Table 13

Principal Exports, As Percentages of Total Exports,  
Selected Countries, 1949.

<u>Country</u>	<u>Exports</u>	<u>Percentage of Total Exports</u>
Ghana	Cocoa	73
Nigeria	Palm Oil, Cocoa	33 & 22
Ceylon	Tea, Rubber	42 & 31
Malaya	Rubber, Tin	50 & 25

Source: U.N. Special Study on Economic Conditions & Development,  
New York, June, 1952, pp.36-37.

<sup>1</sup> See Henry C. Wallich, "Underdeveloped Countries and the International Monetary Mechanism" in Money, Trade and Economic Growth, An Essay in honour of John H. Williams (McMillan Co., New York 1951), pp.15-19.

The fact that exports bulk larger than domestic private investment or government expenditure in many poor countries suggests that they are the more powerful generators of fluctuations in national income; the share of the national income generated by exports normally exceeds the shares generated by domestic private investment or government expenditures. Table 14 shows the importance of exports in four poor countries in their national income.

TABLE 14

Importance of Exports, Selected Countries

<u>Country</u>	<u>Exports as Percentage of Gross National Product</u>
Cuba	34
Nicaragua	27
Ceylon	42
Mexico	17
Ghana <sup>#</sup>	41 <sup>#</sup>

<sup>#</sup>Calculated from 1950 National Income

Source: J.J. Spengler, "I.B.R.D. Mission Growth Theory", AER, Papers and Proceedings, XLIV, No. 2, 585 (May 1954).  
Data based in I.B.R.D. reports during the early 1950's.

It has been estimated that for poor countries as a whole, the ratio of exports to the national income appears to be not much less than 20 per cent;<sup>2</sup> in some countries, e.g. Ghana and Venezuela, the export of only one or two staple commodities account for a large part of foreign exchange receipts. Chang asserts that "since the level of home investment is generally low, the home national income is predominantly determined by the value of the exports of such staples'...<sup>3</sup> Chang also states that

<sup>2</sup> United Nations, Measures for the Economic Development of Underdeveloped Countries, (New York, 1951), p. 71.

<sup>3</sup> T.C. Chang, Cyclical Movements in the Balance of Payments, (Cambridge, 1951), p. 79.

'demand for agricultural products is liable to cyclical shifts because of variations in income, working stocks and speculative inventories in the industrial countries'. Thus a major problem these poor countries face is the heavy reliance on export markets and the cyclical demand for these commodities, hence their economies are susceptible to the transmission of the trade cycle from abroad.

A depression in the industrial countries of the world reduces the demand for the poor countries' exports, and being primary products, these exports suffer large price and value declines; conversely, overseas prosperity raises the demand for the exports of the poor countries and total export proceeds increase; the value increase in each phase of the business cycle is greater than the volume increase. According to a United Nations study, the cyclical fluctuations in export proceeds of eighteen major primary commodities exported by poor countries amounted during 1901 - 1950 to about 37 per cent in amplitude, that is, on the whole, export proceeds fell from a 100 to 63 and subsequently rose again to a 100, during the average cycle of four years' duration.<sup>4</sup>

Another study of fluctuations in the mineral exports of 25 countries revealed that the average year to year fluctuation in export proceeds was no less than 27 per cent during the period 1928-1950.<sup>5</sup> In other words, the average annual change in the foreign exchange yield of the ores and minerals exported by these countries was, on the average, from an index of a 100 in any one year to an index of 73 or 127 in the next. These fluctuations in export proceeds disrupt, in turn, the domestic economy, as the central governments derive a large part of their revenue

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<sup>4</sup> United Nations, Department of Economic Affairs, Instability in Export Markets of Underdeveloped Countries, (New York, 1952), p. 6.

<sup>5</sup> United Nations, Department of Economic Affairs, Non-Ferrous Metals in Underdeveloped Countries, (New York, 1952), pp. 91 - 93.

from exports. The income of export industries in poor countries usually bears a high percentage to their national income as we have remarked earlier, and since the income from export industries tends to change constantly, any long range planning becomes a difficult task.

Any cyclical change in the value of exports directly influences the income of export industries which in its turn bring a corresponding change in the total national income. Poor countries are not only faced with a long-term lag in the demand for their exports in world trade, but also the problem has invariably been compounded by short-term instability. Experience throughout the post-war years has demonstrated that short-term instability in world trade of primary commodities has persisted as a major flaw in the fabric of the international economy. The great improvement in the post-war period in the internal economic stability of the industrial countries has not been matched by a proportionate gain in the stability of primary commodity trade.

The short-term fluctuations in value of exports have, of course, been compounded of fluctuations in both volume and price. In the post-war years, when the short-term variations in value of trade amounted, on the average, to 12 per cent, the volume of trade fluctuated by 11 per cent.<sup>6</sup> A comparison of value, volume and price will indicate that the short-period fluctuations in volume and price by no means always reinforce one another, but frequently change in opposite directions.

Because of their invariable dependence upon exports of two or three primary commodities, the export earnings of most primary producing countries have unavoidably sustained wide, short-period fluctuations in the post-war years. Table 15 shows the average short-period fluctuations

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<sup>6</sup> United Nations, World Economic Survey, 1958, New York 1959, p. 59.

in export earnings of selected countries during the period 1950-1957; all the countries export beverage commodities.

TABLE 15

AVERAGE SHORT-PERIOD FLUCTUATIONS OF EXPORT EARNINGS, 1950 - 1957

<u>Country</u>	<u>Percentage</u>
Ghana	12.5
Ceylon	11.5
Brazil	11.0
Colombia	10.5
Guatemala	5.4

Source: U.N. World Economic Survey, 1958, Table 21.

The pattern of fluctuations in export earnings broadly reflect the fluctuations in value of primary commodities; the instability in export earnings, through its effect on the capacity to import, has had serious repercussions on both the internal and the external balance of the primary producing countries.

The main source of instability in trade of primary commodities (as we have pointed out earlier) is the influence exerted on primary markets by the cyclical fluctuations in income and output of industrial countries. Superimposed upon these cyclical movements are the sporadic shocks to the economic system released by such political events as the Suez crisis or the outbreak of hostilities in Korea. Indeed, as we propose to show later, the Korean crisis brought about a commodity boom in which the primary producing countries benefitted a great deal. In circumstances of this nature the fear of future shortages may provide an outburst of speculative activity that impinges sharply on trade in primary commodities. Other irregular disturbances in trade may also arise from changes in specific

governmental policies, such as those relating to strategic stockpiling or surplus disposal programmes.

Supplementing these sources of instability in demand are the disturbances emanating from changes in the supply situation; examples of such disturbances are floods, drought and diseases.

#### DEMAND FOR COCOA

Cocoa is strictly speaking not an industrial raw material, the beans are used mainly for the manufacture of sweets although the by-products are used to make fertilizers, cocoa butter and oils, and soap. Demand for cocoa does not therefore exhibit the same characteristics as the demand for industrial raw materials. Cocoa is a luxury good and competes with other beverages such as coffee and is complementary to demand for food-stuffs for which it is used. The income elasticity for cocoa is high in low income periods and low in high income periods; in other words, demand for cocoa rises generally with rising levels of income but not as much as the rise in income, while in the periods of low incomes, demand for cocoa falls off but the fall in the demand is greater than the fall in income.

A principal feature of the cocoa market is that world demand is inelastic in the high-income countries which are the main consumers. A major part of the consumption is indirect --- as an ingredient for sweets --- and a relative price increase causes manufacturers to reduce the cocoa content of their products. Although the demand for cocoa as a final product is inelastic, substitution is possible when it is used as a raw material; moreover, in high-income countries, the demand tends to reach a saturation point beyond which it becomes inelastic in terms of higher income.

In the United States, for instance, in spite of the considerable increases in the income available for consumer spending between the pre-war period and recent years, the per capita consumption of cocoa has remained constant;<sup>7</sup> increased imports have covered only the amount required to meet the needs of population growth. In Europe, per capita consumption has not yet returned to its pre-war level, although there are wide differences between individual countries.

What this means is that demand for cocoa will increase with rising levels of income; but as income continues to increase a saturation point is reached in which demand becomes inelastic. In a depression, consumption of cocoa is likely to be curtailed sharply, like any other luxury good, with serious repercussions on the economies of the supplying countries.

The discussions on the demand for industrial raw materials and cocoa indicates that Ghana suffers from two kinds of pressures, fluctuations in the demand for its export of industrial raw materials and fluctuations in the export of luxury good, i.e. cocoa. Twenty per cent of Ghana's exports consists of industrial raw materials (diamonds, bauxite, manganese and timber). As we have noted earlier, fluctuations in the export values of these commodities produce fluctuations in the national income of Ghana; demand for the industrial raw materials depends on the state of economic activity in the mature economies of North America and individual countries of Europe, especially the United Kingdom.

We shall show later on in the Chapter that the industrial countries of North America and Europe have maintained their industrial production at a high level from the low levels of the forties; however, the post-war

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<sup>7</sup> See United Nations, Analysis and Projections of Economic Development, The Economic Development of Brazil, New York, 1956, p. 89.

industrial production has been unevenly distributed among them. The United Kingdom takes almost all raw materials exported by Ghana; it is therefore essential that she should maintain a high level of economic activity. After the commodity boom called forth by the Korean War, the United Kingdom's imports (as we shall show later) of industrial raw materials slackened off. Of Ghana's exports of raw materials, only diamonds (industrial), and timber have shared in the general boom conditions prevailing in the United Kingdom.

The United Kingdom is the sole customer for Ghana's bauxite, and an unusual situation arose in 1955 in which the consumption of fabricated aluminium was higher than in the previous year while imports of bauxite from Ghana fell by 15 per cent compared with 1954.<sup>8</sup> The substantial stocks of bauxite accumulated in the United Kingdom in 1954 appear to have been run down during 1955 at the expense of current imports. In fact, bauxite imports picked up again in 1956 and 1957.

The same problem of stock accumulation in 1954 in manganese also appears to have been the cause of reduced imports of the commodity in 1955 by the United Kingdom and the United States.

With regard to the import of cocoa by the high-income countries, price appears to be the deciding factor. Since 1950 when the average price of cocoa has been £204 per ton, the export price has risen to a peak of £395 per ton in 1954 and fallen to £195 per ton in 1957. The remarkable fluctuations in cocoa prices have had serious repercussions on world demand and consumption of cocoa and cocoa products.<sup>9</sup> The high prices in 1954 encouraged manufacturers abroad to resort to substitutes and to economize in the use of

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<sup>8</sup> Economic Survey, 1955, op. cit., p. 4.

<sup>9</sup> Economic Survey, 1955, ibid, p. 3.



cocoa, while the high prices of the finished product curtailed consumption to a serious degree. It must be admitted that cocoa prices should not go beyond levels that might discourage consumption. Thus by far the excessive rise of prices in 1954 was, in a way, a boomerang for producers even if it contributed to a general improvement of conditions among producers who considered it a compensation for a long period of low returns for their work in pre-war years. However, those excessive prices were bound to create a distorted view of their own economic possibilities among producers with a correspondingly harder adaptation to more reasonable levels inevitably brought about by the lagging of consumption.

Cocoa production which forms about 73 per cent of total exports of Ghana contributes about 61 per cent to the income of the Central Government. Forty per cent of the entire population depend on cocoa for their income, so that changes in the demand for cocoa cause violent changes in the income of these people. Moreover, because the country is heavily dependent on cocoa exports for revenue, it is the only major source of saving in Ghana.

Table 16 gives the national income of Ghana from 1950 to 1957. The Table shows a continued rise in national income up to 1954, a drop in 1955-56 and an upward rise in 1957; the fluctuations in the national income reflect the fluctuations in the value of exports. The increase in gross domestic product from 1950 to 1954 was due mainly to increased receipts from cocoa exports. Aggregate incomes of cocoa farmers and brokers show little change over this period, as a result of official price policy, and, except for the increase to £34.0 million in 1952 and £37.5 million in 1956, were around the £30.0 million level. Variations in overseas earnings from cocoa are, however, indicated by the substantial changes which took place in the item 'Government Income from Property' from £10.7 million in

1950 to £46.3 million in 1954, and a sharp drop to £18.8 million and £18.6 million in 1956 and 1957 respectively.

TABLE 16

## NATIONAL INCOME OF GHANA, 1950 - 1957

(in thousands of Ghana pounds)

Income Shares	1950	1951	1952	1953	1954	1955	1956	1957
Wages & Salaries Recorded	26,185	31,751	41,786	44,489	49,366	56,271	58,036	61,291
Gross Profits of Companies	13,740	16,523	15,085	15,594	15,389	15,183	15,570	16,210
Operating Surpluses of boards and Corporations	21,829	13,298	3,633	5,698	9,303	4,439	(1)	(1)
Government Income from Property	10,687	16,429	19,203	20,479	46,342	30,902	18,796	18,570
Rent	2,342	2,435	2,504	3,049	3,919	3,930	4,556	4,753
Incomes of cocoa farmers and brokers	30,061	30,869	34,043	30,950	29,567	33,507	37,524	30,007
Miscellaneous Incomes	89,362	125,085	117,493	132,466	133,365	131,967	127,649	145,160
Gross Domestic Product	194,206	236,390	233,747	252,725	287,251	276,199	262,131	275,991
Net Income from Abroad	-6,277	-6,742	-4,933	-5,663	-4,526	-3,513	-4,205	-5,242
National Income & Depreciation	187,929	229,648	238,814	247,062	282,725	272,686	257,926	270,749

(1) Operating surpluses of boards and corporations in 1956 and 1957 have been included in Miscellaneous Incomes for lack of data.

Source : Economic Survey, 1957, Table 1, Appendix.

The changes in the fortunes of the cocoa industry and in official policy are also indicated by the variations in gross profits of official boards and corporations of which those of the Cocoa Marketing Board are an important element. In 1955, the Board's profit fell to £4.4 million from £9.3 million in 1954 and £13.3 million in 1951 (see Table 16).

In Table 17 we give the export of Ghana by value from 1950 to 1957 and compare it with the national income for the same period. The Table indicates that the national income fluctuates in the same manner as the export value, that is, the export value and the national income follow the same movement.

The value of all exports fell in 1955 over the peak 1954 year except diamonds, timber, and manganese, and as will be shown later, the actual volume of these exports rose. This suggests that fluctuations in the export value are more influenced by the changes in the export prices than by the export quantity. A known element or factor which plays a crucial role in the determination of national income is cocoa; cocoa therefore plays a crucial part in the national income of Ghana which is augmented or decreased by changes in the international price of the commodity on the world market.

It may be useful to compare the cyclical fluctuations in the export value and those in the national income in a diagrammatic form. This is done in Chart I. A glance at the Chart reveals that their cyclical relationship is close. Except in 1952, the comparison reveals that the two series follow the same cyclical path; the discrepancy in 1952 can be accounted for by domestic investment which was accelerated with the start of the First Development Plan in 1951.

TABLE 17VALUE OF EXPORTS - 1950 - 57.

£ thousands

	1950	1951	1952	1953	1954	1955	1956	1957
Domestic Exports								
Cocoa	54,604	60,310	52,533	56,145	84,599	65,559	51,063	50,873
Gold	8,719	8,562	9,238	9,458	9,882	9,052	7,489	9,794
Diamonds	2,679	6,417	5,400	3,925	4,273	5,527	7,920	8,979
Manganese	5,007	7,217	8,333	8,722	5,116	5,192	7,004	8,979
Bauxite	223	226	138	201	301	204	331	452
Timber	3,885	4,977	4,157	5,880	6,680	8,092	9,479	9,972
Other Domestic Exports	1,120	2,292	4,488	3,665	2,427	1,533	2,610	1,884
Domestic Exports Total	76,237	90,001	84,287	87,994	113,227	95,159	85,936	90,944
Exports of Foreign Produce	1,170	1,990	2,090	1,949	1,446	503	663	656
<b>TOTAL EXPORTS</b>	<b>77,407</b>	<b>91,991</b>	<b>86,377</b>	<b>89,943</b>	<b>114,673</b>	<b>95,662</b>	<b>86,599</b>	<b>91,600</b>

Source: Handbook of Commerce and Industry, p. 46.

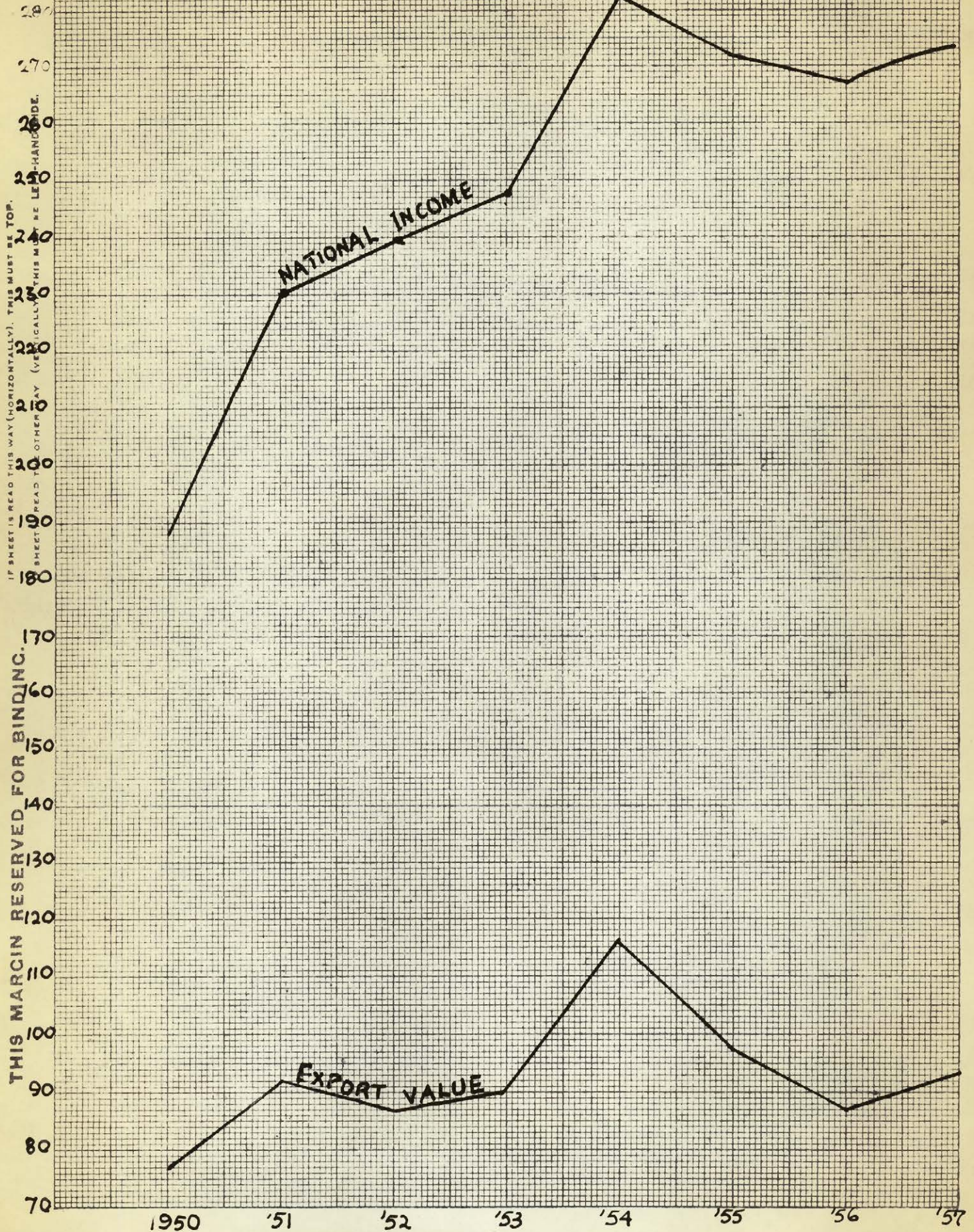
# CHART 1

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FORM 100

## CYCLICAL FLUCTUATIONS IN EXPORTS AND NATIONAL INCOME

(£m)



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When the export value is increasing, e.g. 1950-51, the national income is also increasing, but at a more rapid rate; however, there is a time lag of about six months when the export value makes itself felt by the national income. In 1950-51, the export value increased by 19.5% while the national income rose by 22.1%; this is the domestic multiplier at work. In 1954-55 when the export value dropped by 16.5%, national income declined by only 3.5%. We can therefore say that in a period of rising export value, national income rises more and in a period of declining export value, national income lags behind, i.e., the downward movement is not as sharp as the upward movement in the national income.

This phenomenon points out the fact that the export value is gradually losing ground as the only major determinant of the national income; no doubt, the increased government expenditure during the period plays an important role. If we take three years at random and compare the percentage of export value to national income, this will be clearer. In 1950, the percentage of exports to national income was 40.9, in 1954, it was 40.6 and in 1957, the percentage was 33.9. But by and large, the value of exports are the main determinants of national income in Ghana, and the fluctuations in them tend to influence the national income.

To show the wide fluctuations in the export value, and hence in the national income, we are giving in the next section a detailed analysis of exports from Ghana in the period 1954-57. The wide fluctuations in the demand for Ghana's exports will become more apparent then.

DETAILED ANALYSIS OF EXPORTS, 1954-57

Table 18 gives exports of domestic products for 1952-55. There was a fall of £17.5 million in domestic exports in 1955 compared with the previous year. Total exports amounted to £96.2 million of which £95.7 million was accounted for by domestic produce. Even at this reduced level, however, the value of exports was higher than in any earlier year, with the exception of 1954.

TABLE 18EXPORTS OF DOMESTIC PRODUCE

Year	Value of Exports of Domestic Produce		Cocoa Exports		
	Total £	Excluding Cocoa £	Quantity Tons	Value £	Unit Value £ per ton
1952	84,287,073	31,753,993	211,999	52,533,085	248
1953	87,994,071	31,851,052	236,630	56,143,019	237
1954	113,227,141	28,628,277	214,148	84,498,864	395
1955	95,728,842	30,169,905	205,875	65,558,937	318

Source: Economic Survey, 1955, Table 4.

1954 had been a year of exceptional prices for cocoa and the fall in value of total exports was due entirely to lower receipts from cocoa. The value of domestic exports apart from cocoa increased by £1.6 million from £28.6 million in 1954 to £30.2 million in 1955, but was still below the level reached in 1952 or 1953. Since 1952 the value of domestic exports other than cocoa has fallen despite significant increases in the value of timber and diamond exports, which have been offset by smaller manganese exports and the virtual cessation of exports of cocoa butter and cocoa products in 1955.

Over the four year period shown in Table 18 the importance of the export price of cocoa and, to a lesser extent of the quantity exported, as determinants of the total value of domestic exports is clearly demonstrated.

The quantity of cocoa exported in 1955 fell to 205,875 tons from the level of 214, 148 tons in 1954 which was itself lower than that of 1953. The main cause of the fall in value was, however, the drop in export prices from an average of £395 per ton in 1954 to £318 per ton in 1955. The decline in the peak prices realised continued throughout the whole of 1955 and the export price in December 1955 was just £250 per ton.

TABLE 19  
QUANTITY AND VALUE OF EXPORTS 1954-55

	Unit	1 9 5 4		1 9 5 5	
		Quantity	Value £'000	Quantity	Value £'000
<b>Exports of Domestic Produce</b>					
Cocoa	ton	214	84,599	206	65,559
Cocoa Butter	ton	1	179	-	2
Cocoa Products	ton	4	820	-	3
Kola Nuts	cwt	95	273	70	186
Copra	ton	4	230	3	150
Palm Kernels	ton	9	317	10	339
Timber - Logs	cub.ft.	12,615	3,641	16,903	4,438
Timber - Sawn	cub.ft.	5,191	3,016	6,423	3,641
Gold	f.o.t.	788	9,822	724	9,048
Diamonds	carats	2,126	4,273	2,277	5,530
Manganese	ton	460	5,138	540	5,192
Bauxite	ton	164	288	116	203
Other		-	631	-	1,438
<b>TOTAL</b>			<b>113,227</b>		<b>95,729</b>
<b>Exports of Foreign Produce</b>					
			<b>1,446</b>		<b>602</b>
<b>TOTAL EXPORTS</b>			<b>114,673</b>		<b>96,231</b>

Source : Economic Survey, 1955, Table 5.



Gold exports in 1955 amounted to £9.0 million, a reduction of nearly 8% below the 1954 level. The strike which began in November affected exports in 1955 to some extent, even though shipments continued to be made from stocks.<sup>10</sup> Apart from the effects of the strike, however, it is probable that the quantity of gold exported in 1955 would have been smaller than in 1954; for the period January to September, 1955, the monthly average quantity exported was 63.5 thousand fine ounces against a monthly average of 65.7 fine ounces in 1954.<sup>11</sup>

Diamonds replaced manganese as the third most valuable Ghana export in 1955. The value of diamond exports increased by £1.2 million from £4.3 million in 1954 to £5.5 million in 1955, and the quantity exported rose by 7%. The major cause of the higher receipts from diamond exports was, however, a rise in the f.o.b. value per carat from £2.01 in 1954 to £2.43 in 1955. In the case of manganese, although the quantity exported showed an increase of 80,000 tons, export earnings showed a very small increase due to a fall in export prices.

The quantity of logs exported in 1955 increased by 34% from 12.6 million cubic feet in 1954 to 16.9 million cubic feet in 1955. The increase in exports was, however, accompanied by a fall of 9% in export prices; the value of logs exported rose by 22% to £4.4 million. Changes in sawn timber exports were very similar. At 6.4 million cubic feet, the quantity exported in 1955 was 24% greater than in the previous year, export prices fell by over 2% and the value of exports of sawn timber increased by 21% to £3.6 million.

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<sup>10</sup> Ministry of Labour Report, Accra, 1956, p. 12.

<sup>11</sup> The Ashanti Goldfields Corporation Limited; Chairman's Report, January, 1956, p. 8.

DIRECTION OF EXPORTS, 1954-55

There was little change in the shares of the principal markets for Ghana exports. The United Kingdom retained her traditional position as Ghana's leading customer, taking exports to the value of £39.1 million or 40.6% of the total. Exports to the Rest of the Sterling Area increased during 1955, due mainly to larger purchases of cocoa by Eire, and at £5.4 million accounted for 5.6% of total exports.

TABLE 20TOTAL EXPORTS BY DESTINATION 1954-55

	£ million		% of total value	
	1954	1955	1954	1955
United Kingdom	46.2	39.1	40.3	40.6
Rest of Sterling Area	5.1	5.4	4.4	5.6
Non-Sterling O.E.E.C. Countries and Possessions	36.0	29.6	31.4	30.8
Canada	0.5	0.4	0.4	0.4
United States	19.5	17.4	17.0	18.1
Other American Account Countries	-	-	-	-
Other Countries	7.4	4.3	6.5	4.5
TOTAL	114.7	96.2	100.0	100.0

Source : Economic Survey, 1955, Table 6.

During 1955 the United States of America purchased Ghana exports to the value of £17.4 million; the increase in the percentage of total exports going to the United States from 17.0% in 1954 to 18.1% in 1955 was due to

larger purchases of timber and manganese. The non-sterling O.E.E.C. countries and possessions, however, retained their position as Ghana's main important market after the United Kingdom, taking 30.8% of total exports in 1955 as against 31.4% in the previous year. The smaller percentage of exports to "Other Countries" in 1955 was due to reduced purchases of cocoa by the Soviet Union.

#### EXPORT DUTIES

The importance of export duties to Ghana is clearly reflected in the current account (see Table 26). Revenue from cocoa duties alone contribute about 61 per cent to the income of the Central Government. As must be expected, the yields from export duties depend upon the value of the exports and fluctuate widely as the export value itself. The fluctuations are cyclical in nature, for instance, in 1956, the contribution made by cocoa export duties to the income of the Central Government dropped to only 33-1/3 per cent (see Table 26).

Export duties on the whole in 1955 was £29.2 million, £14.1 million below the 1954 figure. The yield from export duties on cocoa amounting to £28.8 million in 1955 was £14.2 million below 1954, in consequence with the smaller volume of cocoa exported. Export duties on items other than cocoa were greater in 1955 than in the previous year, due to an increase of £56,000 or 26 per cent yield from the export duty on diamonds; duties collected on exports of timber and kolanuts showed small decreases in comparison with 1954.

#### EXPORTS, 1956-57.

The value of total exports f.o.b. in 1957 amounted to £91.6 million, an increase of £5.0 million or 5.8% over the 1956 level of £86.6 million. The value of exports of foreign produce in 1957 at £656,000 was practically unchanged from the 1956 total of £663,000 and the increase of £5.0 million

was therefore accounted for by domestic exports.

In 1956, when for the first time in recent years the total value of imports c.i.f. into Ghana exceeded the value of exports f.o.b., the excess of imports over exports amounted to £2.3 million. The increase of £5.0 million in the total value of exports from Ghana in 1957 as compared with 1956 was more than outweighed by the marked increase of £7.7 million in the value of imports over the same period with the result that the excess in 1957 of imports c.i.f. over exports f.o.b. amounted to £5.0 million.

TABLE 21  
EXPORTS OF DOMESTIC PRODUCE

Year	Value of Exports of Domestic Produce		Cocoa Exports		
	Total £	Excluding Cocoa £	Quantity Tons	Value £	Unit Value £ per ton
1952	84,287,073	31,753,988	212,000	52,533,085	248
1953	87,994,071	31,851,049	236,634	56,143,022	237
1954	113,231,478	28,632,614	214,148	84,598,864	395
1955	95,158,820	29,599,883	205,875	65,558,937	318
1956	85,936,030	34,873,514	234,406	51,062,516	218
1957	90,943,742	40,070,335	260,224	50,873,407	195

Source : Economic Survey, 1957, Table 11.

Although the total value of exports of domestic produce increased by £5.0 million between 1956 and 1957, the value of cocoa exports in 1957 was £190,000 lower than in the previous year. The quantity of cocoa exported in 1957 at 260,224 tons was greater than in any year since 1950 and 25,818 tons greater than in 1956. Total receipts from cocoa exports, however,

amounted to only £50.9 million in 1957 compared with £51.0 million in 1956 and the unit f.o.b. value decreased to £195 per ton in 1957 compared with £218 per ton in 1956.

The most significant feature in connection with Ghana's exports in 1957 was the continued rise in the value of domestic exports, apart from cocoa, for the third year in succession since the low level recorded in 1954. At £40.07 million in 1957 the value of domestic exports, apart from cocoa, increased by £5.2 million over the 1956 total of £34.87 million. Part of this increase was due to the recovery of gold exports in 1957 after the dispute in the mining industry which reduced exports of gold in both 1955 and 1956.

Apart from gold, the principal increases in the value of exports in 1957 over 1956 were : manganese £1.9 million, diamonds £1.1 million, logs and sawn timber £0.5 million. There were also significant increases in the value of exports of iron and steel scrap and also of plywood and veneer sheets, although this latter increase was principally due to a revision of the prices declared on exports which had been under-valued.

Gold exports in 1957 amounted to 788 thousand fine ounces valued at £9.79 million compared with 599 thousand fine ounces valued at £7.49 million in 1956. There was a very small decrease in the unit value obtained on export in 1957 compared with 1956.

The quantity of diamonds exported increased by 16% from 2,519 thousand carats in 1956 to 2,931 thousand carats in 1957; there was a drop in the f.o.b. value per carat and the value of diamond exports amounted to £8.98 million in 1957 compared with £7.92 million in 1956.

In the case of manganese a relatively small increase in the quantity exported was associated with a marked increase from £11.08 to

£14.02 in the unit value per ton and the value of manganese exports increased from £7.04 million in 1956 to £8.99 million in 1957.

TABLE 22  
QUANTITY AND VALUE OF EXPORTS

	Unit	1 9 5 6		1 9 5 7	
		Quantity	Value £'000	Quantity	Value £'000
Exports of Domestic Produce					
Cocoa	ton	234	51,063	260	50,873
Cocoa Butter	ton	3	551	-	19
Cocoa Products	ton	2	356	-	36
Kola Nuts	cwt.	81	233	58	175
Copra	ton	5	228	3	160
Palm Kernels	ton	12	526	7	276
Timber - Logs	cub.ft.	19,617	5,169	24,534	5,368
Timber - Sawn	cub.ft.	7,316	4,300	7,707	4,566
Gold	f.o.t.	599	7,489	788	9,794
Diamonds	carats	2,519	7,920	2,931	8,979
Manganese	ton	636	7,044	641	8,990
Bauxite	ton	138	331	185	452
Other		-	726	-	1,254
TOTAL		85,936			90,944
Exports of Foreign Produce		663			656
TOTAL EXPORTS		86,599			91,600

Source: Economic Survey, 1957, Table 12.

The quantity of logs exported increased by 25% from 19.62 million cubic feet in 1956 to 24.53 million cubic feet in 1957. There was, however, a decrease from £0.26 to £0.22 per cubic foot in the unit f.o.b. value, and the value of log exports increased by only 4% from £5.17 million in 1956 to £5.37 million in 1957. In the case of exports of sawn timber, unit f.o.b. values were the same in 1956 and 1957 and an increase from 7.32 million

cubic feet in 1956 to 7.71 million cubic feet in 1957 was accompanied by a rise in the value of exports of sawn timber from £4.30 million in 1956 to £4.57 million in 1957.

DIRECTION OF TRADE, 1956-57

Variations in the pattern of Ghana's exports depend mainly upon the disposal of the cocoa crop. In 1957 the United Kingdom regained from the non-sterling O.E.E.C. countries her normal position as Ghana's leading customer, taking exports to the value of £34.2 million or 37.3% of the total, in comparison with £29.9 million or 34.5% of the total in 1956.

Exports to the non-sterling O.E.E.C. countries, on the other hand, decreased from £32.4 million or 37.4% of the total in 1956 to £32.1 million or 35.0% of the total in 1957.

The percentage of Ghana's exports going to the rest of the Sterling Area declined from 6.1% to 3.8% and to the dollar area from 19.5% to 16.8% but exports to "Other Countries" increased from £2.2 million or 2.5% in 1956 to £6.5 million or 7.1% of the total in 1957. The principal reason for the higher percentage of exports to "Other Countries" in 1957 was an increase in value of exports to the Soviet Union, consisting entirely of cocoa, from £2.05 million in 1956 to £6.25 million in 1957.

TABLE 23  
EXPORTS OF DOMESTIC AND FOREIGN PRODUCE BY DESTINATION

	Value £m.		% of Total Value	
	1956	1957	1956	1957
United Kingdom	29.9	34.2	34.5	37.3
Rest of Sterling Area	5.2	3.5	6.1	3.8
Non-Sterling O.E.E.C. Countries & Possessions	32.4	32.1	37.4	35.0
Canada	0.9	0.9	1.0	1.0
United States	16.0	14.5	18.5	15.8
Other Countries	2.2	6.5	2.5	7.1
TOTAL	86.6	91.7	100.0	100.0

Source: Economic Survey, 1957, Table 13.

Changes in the major markets for Ghana's exports in 1956 and 1957 are illustrated in the following Table 24 which lists in order all countries which took more than 1% of Ghana's exports in 1957.

TABLE 24  
EXPORTS BY COUNTRIES, 1956-57.

	Value £m.		%	
	1956	1957	1956	1957
United Kingdom	29.95	34.18	34.6	37.3
United States	15.98	14.47	18.5	15.8
W. Germany	14.15	11.46	16.3	12.5
Netherlands	9.70	9.04	11.2	9.9
U.S.S.R.	2.05	6.25	2.4	6.8
Italy	2.47	3.83	2.9	4.2
Norway	2.46	3.23	2.8	3.5
Belgium-Luxemburg	0.48	1.78	0.5	1.9
Australia	1.96	1.17	2.3	1.3
South Africa	1.34	1.13	1.5	1.2
Sweden	1.04	1.01	1.2	1.1
Other	5.02	4.05	5.8	4.5
<b>TOTAL</b>	<b>86.60</b>	<b>91.60</b>	<b>100.0</b>	<b>100.0</b>

Source : Economic Survey, 1957, Table 14.

#### EXPORT DUTIES

Export duties in 1957 was £13.14 million, £1.30 million lower than the 1956 level of £14.44 million. The yield of export duties on cocoa, which amounted to £13.85 million in 1956, fell by £1.34 million to a total of £12.51 million in 1957. The yield of export duties on items other than cocoa



increased from £590,000 in 1956 to £632,000 in 1957, a small decrease of less than £20,000 on collections from timber being more than outweighed by an increase of over £60,000 in the duty collections from diamond exports.

AVERAGE VALUE INDICES

As will be shown later (Table 37), the index of average c.i.f. values of imports has changed very little since 1954, only varying within a range of 98-102 (1954 = 100). The import index stood at 102 (Table 37) compared with 101 in 1956. Fluctuations since 1954 in the index of average f.o.b. values for exports, on the other hand, have been much more substantial; although the export index in 1957 at 65 fell by only 3 points below the 1956 level of 68 (1954 = 100) the index in 1957 was 35% below the 1954 level.

TABLE 25

AVERAGE VALUE INDICES

Year	Total	Food	Crude Materials Except Fuels	Manufacturers Classi- fied by Material	Gold and Monetary Items
1954	100	100	100	100	100
1955	85	81	92	121	100
1956	68	55	99	156	100
1957	65	50	101	156	100

Source : Economic Survey, 1957, Table 15.

Cocoa is by far the most important item included in the export index and the decrease of three points from 68 to 65 in the total domestic export index between 1956 and 1957 was due entirely to a fall of five points in the food section on account of the lower unit f.o.b. value of cocoa exports. Crude materials increased by two points from 99 to 101 between 1956 and 1957 while the indices for the other two sections shown in the

Table were unchanged, expressed to the nearest whole number.

Although the export index represents adequately the general changes in the trend of export value, too much reliance should not be placed upon the actual extent of the variations shown, since the accuracy of the index is limited by the relatively small number of export items and changes in the relative importance of items between one year and another.

RELATION BETWEEN INDUSTRIAL PRODUCTION  
AND IMPORTS OF PRIMARY RAW MATERIALS,  
AND FOODSTUFFS.

For most countries, there exists a clear relationship between industrial production, on the one hand, and imports on the other. This is particularly true of countries such as the United Kingdom and most European countries, but to a less extent does it apply to the United States. During the periods of increasing industrial production, demand for raw materials presses up the imports of these commodities, at the same time as a high level of investment, which usually coincides with the production boom, gives rise to imports of primary commodities and fuels. Increased production again leads to higher incomes which in turn stimulate imports of consumer goods. For the exporting countries, the increase in exports will make for a larger production, and thereby lead to a similar development. A decline in production would of course reverse the process.

The level of production in the United States, accounting for about 50 per cent of the world's industrial production (excluding the Soviet Union, Eastern Europe and Mainland China) has been regarded as decisive for the world's economy. However, it has been shown by GATT that Western Europe has a much higher ratio of imports to industrial production than in the

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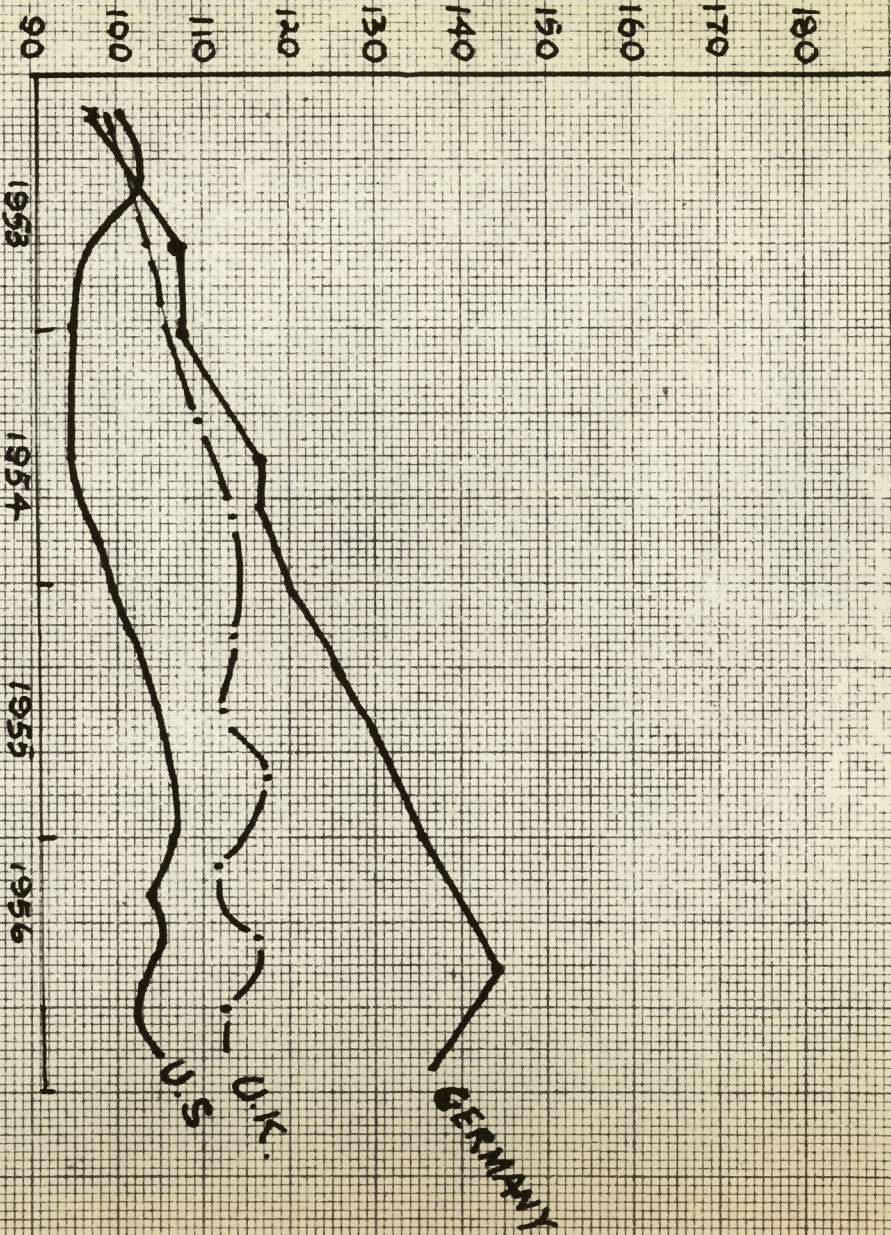
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# CHART 2

VOLUME OF INDUSTRIAL PRODUCTION IN THE U.S AND WESTERN EUROPE 1953 - 1956

(INDEX NUMBERS 1953 = 100, SEASONABLY ADJUSTED)



SOURCE OEEC STATISTICAL BULLETINS GENEVA STATISTICS.

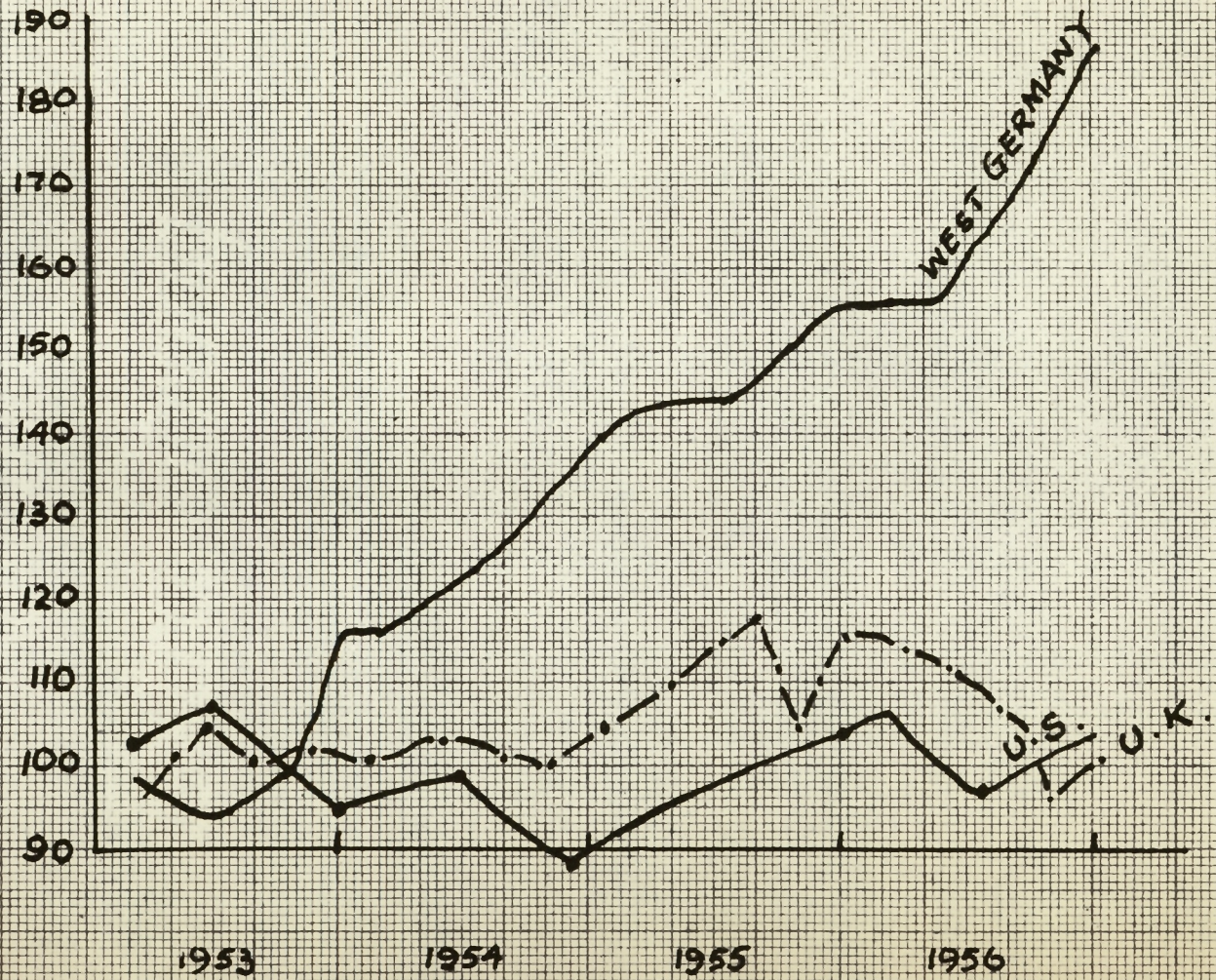
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CHART 3

VOLUME OF IMPORTS INTO U.S., U.K. AND WEST GERMANY  
(INDEX NUMBERS 1953 = 100)



SOURCE: OEEC STATISTICAL BULLETIN GENEVA STATISTICS.

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CHART 3

FORM 100

United States.<sup>12</sup> Hence a given fluctuation in European industrial production is bound to have a larger effect on the volume of trade than the same fluctuation in the United States.

Whether or not imports rise or fall more slowly, at the same rate, or more rapidly than industrial production depends on the production structure of each industrial country. In many countries, however, there is a tendency for imports to grow or decline more rapidly than production. Nevertheless, great differences are to be found for each given country as between the various groups of import commodities. The reason for the greater variation in imports as compared with production lies in the fact that domestic supply of certain key commodities is, in the short run, rather inelastic.

Unlike North America (and especially the United States) which, being a large producer and exporter of primary products, and which relies only to a limited extent upon imported raw materials, fuels and foodstuffs, the countries of Western Europe (especially the United Kingdom, France and West Germany) depend heavily upon such imports for the maintenance of their general economic activity. Nevertheless, there exists in North America and Western Europe a fairly close relation between the volume of industrial output (taken as an index of general activity) and the volume of total imports. This relationship is clearly seen from Charts 2 and 3, where a comparison is made between the United States and Western Europe, distinguishing the United Kingdom and West Germany, the best three customers for Ghana's exports. It appears that the quantum of total imports has, since 1953, on the whole been increasing at a higher rate than industrial production. This is the case in the United States, in West Germany but not in the

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<sup>12</sup> See GATT, International Trade, Geneva, 1954, pp.63-64,

United Kingdom.

Of these three cases, the increase in industrial production since 1953 was by 1956 largest - 40% - in West Germany; the increase in the volume of total imports substantially exceeded the rise in output. In Germany, total imports have increased nearly as much as production - by 71%; in the United Kingdom and the United States, industrial production exceeded in 1956 the 1953 level by 14 and 7 per cent respectively, but in spite of this difference, imports were in 1956 in both countries 12 per cent higher than in 1953.<sup>13</sup>

The post-war period has seen a rapid expansion in world trade, a result of the increase in overall economic growth and itself contributing to that growth in a complicated system of mutual causation. However, the post-war overall expansion in world trade has been unevenly distributed amongst countries. While in many countries domestic expansion has been assisted by a rising international demand for their exports, others have encountered difficulties due to faltering or stagnating international demand for the products on which their export earnings mainly depend.

In the early post-war years, the growth of world demand for primary raw materials, fuels and many semi-manufactured products tended to run ahead of the expansion of supplies. Strategic stockbuilding was one element in this situation, and its force was demonstrated in the commodity boom that accompanied the Korean War. But since then, supplies have progressively caught up with demand: for basic foodstuffs, such as cereals, this had happened by 1953/54; and by 1957 the slackening in economic activity in most of the industrialized countries produced a situation of general adequacy or excess of supplies of primary products at the prices then ruling.

The steady rise in imports into Western Europe which has

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<sup>13</sup> GATT, International Trade, *ibid*, p. 64.

characterized the period since 1952, and the recovery in the United States after the 1953/54 recession, have all contributed to a rising steady demand for raw materials during the period from 1952 to 1957. After the commodity boom called forth by the Korean crisis, total output of goods and services rose considerably faster in Western Europe than in the United States, which suffered a setback in 1954. Gross national product at constant prices rose from 1952 to 1957 by 15 per cent in the United States, but by almost 28 per cent in Western Europe.<sup>14</sup>

Correspondingly, whereas the imports in current dollars of the United States from the overseas primary producing countries hardly changed between 1952 and 1957 (it rose by only \$230 million or less than 4%), the imports into Western Europe from the overseas primary producers increased in this period by \$3,500 million or about 30%.<sup>15</sup>

The development and composition of the United States foreign trade since 1952 shows that total imports dropped in 1954, a recession year, and then climbed by about 25% during the following three years of economic expansion.

The industrial expansion in Western Europe which started in 1953 continued also to 1957, when production rose by 5%. Trade with non-industrial areas accounts for about 40% of Western Europe's total trade. During the boom years, 1954 - 1957, the value of imports from these areas increased more or less steadily by about \$1,000 million annually.

The overseas sterling area, which witnessed a considerable increase in its exports to Europe in 1954 and 1955 did not benefit after the latter year from Europe's growing demand for imports, since its products were destined mainly for the United Kingdom, where production rose only

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<sup>14</sup> See U.N. Bulletin for Europe, Geneva, 1959, p. 3, footnote 5.

<sup>15</sup> U.N., ibid., p. 3.

slightly after 1955.

Western Germany, which during the fifties experienced a much more rapid economic expansion than the rest of Western Europe, accounted for 38% of the increase from 1952 to 1955 in that area's imports from overseas primary producing countries or for more than four times as much as the United Kingdom.

The purpose of all this analysis is to emphasize that with reference to these three countries, which are the important markets of Ghana, there is some correlation between the trend of Ghana's exports and national income and imports of the three countries. Further breakdown would throw more light but is not available.

An examination of Table 17 and Charts 2 and 3 show a close correlation between the volume and value of exports from Ghana and the state of economic expansion in the industrial countries of North America and Europe. The rise in the exports of Ghana has followed closely the post-war economic expansion in the industrial countries.

In the export of cocoa, the boom for foodstuffs continued until 1955 when demand weakened following the slackening of industrial expansion in the United Kingdom. The rest of Ghana's exports, mainly industrial raw materials, bauxite, manganese and industrial diamonds, only the latter two have derived any appreciable benefit from the boom conditions prevailing in the manufacturing countries. In the United Kingdom, the sole customer for Ghana's bauxite, imports have practically been unchanged since 1950. The import of timber, however, has shown increased demand consonant with industrial production in manufacturing countries.

It is, however of great importance to Ghana that industrial expansion should be kept at a rising steady rate in the industrial countries,



especially in the United Kingdom, for with economic expansion, these countries tend to increase their demand for raw materials. It is the cyclical fluctuations in the economies of the industrial countries which produce such violent impact on the economies of primary producing countries.

DEVELOPMENT IN POSTWAR DEMAND FOR INDUSTRIAL RAW  
MATERIALS AND FOODSTUFFS

We have shown that in both North America and Western Europe post-war growth in manufacturing production has been very substantial, though the especially rapid expansion in Western Europe has in part reflected recovery from war-time destruction. Further, with the rapid growth in general economic activity, per capita real incomes have generally advanced strongly; for the post-war period, there has been an increase in per capita incomes of 14 per cent in the United States and 32 per cent in Western Europe.<sup>16</sup> Expanding economies, growing populations and higher levels of per capita income have resulted in the use of increasing amounts of industrial raw materials and foodstuffs. However, the advance in consumption of primary commodities has not been in proportion to the expansion in total economic activity.<sup>17</sup> That is, consumption of industrial raw materials and foodstuffs have lagged behind growth in economic activity.

A number of factors have been given by the United Nations' experts as contributing to this tendency of consumption of primary commodities to grow less rapidly than economic activity in the industrial countries. As far as foodstuffs are concerned, it is well known that while the quantity of food demanded grows with rising levels of real income, the increase in per capita demand tends to be less than proportionate to the advance in

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<sup>16</sup> U.N. World Economic Survey, 1958, op. cit., p. 21.

<sup>17</sup> U.N. ibid, p. 21.

incomes. At high levels of income, consumption of many staple foods may even stagnate or decline.

As an example of how rising levels of income influence demand for food, the world consumption of cocoa increased in 1953 to about 800,000 metric tons, 14 per cent above consumption in 1952.<sup>18</sup> The increase in consumption took place mainly in Western Europe, largely because of higher personal incomes; the notable rise in the United Kingdom was the result of the continued gain in income and the derationing of sweets. In the United States, on the other hand, consumption remained stationary as a result largely of increased competition from non-chocolate confectionery, stimulated by the high price of cocoa. In 1954, price of cocoa increased further, and world consumption fell off slightly; especially marked was the decline in the United States, where consumption of chocolate products during 1954 was substantially lower than in 1953.<sup>19</sup>

Although cocoa producers have had a good price for their crop in the post-war years, they are not likely to maintain this boom for long; many developments are taking place in most industrial countries which cast gloom over the ability to maintain the boom for long.

The situation is not devoid of serious dangers to producers. While the long-term consumption trend in relation to prices and income demonstrates that the demand for cocoa will continue to increase with a rising population and rising per capita income, the shortage of supplies and very high prices during the last few years have engendered forces which may have permanent adverse effects on the demand for cocoa products.

In the long run, the price of cocoa beans may be profoundly

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<sup>18</sup> U.N. Commission on International Commodity Trade, Survey of Primary Commodity Markets, New York 1955, p. 10.

<sup>19</sup> U.N. World Economic Survey, 1958, op. cit., p. 10.

affected by a twofold drive in many high-consumption countries, especially in the United States, for substitutes and for alternative forms of sweets and confectionery, which use much less cocoa products. The drive for alternative confectionery has taken two forms:-<sup>20</sup>

- (a) a reduction of the quantity of cocoa products used in chocolates by increasing the volume of milk, sugar, nuts and innumerable other ingredients;
- (b) expansion in production and consumption of sugar and other non-cocoa confectionery. Both of these courses have been pursued in every consuming country, and at an accelerating rate.

In the United States, for instance, this movement has the greatest progress; while the use of cocoa beans in 1954 declined by about 17 per cent, manufacturers' sales of chocolate goods declined only by 6 - 7 per cent. At the same time, production and consumption of cocoa confectionery increased appreciably.<sup>21</sup>

FAO experts report that efforts have been greatly intensified to develop an acceptable complete substitute for cocoa beans. Research is going on in many laboratories,

- (a) to find a synthetic cocoa-flavour agent; and
- (b) to endow various vegetable fats with the melting qualities of cocoa butter.

Although the synthetic materials developed are still much inferior to cocoa products, considerable progress has been made even during the short time since research began in earnest, and the use of compound coatings was greatly stimulated in the United States and some European countries during the periods of very high prices in 1954.<sup>22</sup>

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<sup>20</sup> F.A.O., Cocoa, A Review of Current Trends in Production, Price and Consumption, Rome, 1955, p. 69.

<sup>21</sup> F.A.O., *ibid*, p. 70.

<sup>22</sup> F.A.O., *ibid*, p. 70.

As regards industrial raw materials, United Nations' experts state that several important factors have contributed to the declining raw material content of finished output in the industrial countries in the post-war period.<sup>23</sup> A factor which has operated with greatly increasing force in the past decade, according to U.N. reports, has been the growing use of synthetic raw materials; but two other developments appear to have had an appreciably greater impact upon raw material markets.

One development has been the change in the structure of industrial production and, in particular, the rapid growth since the war of those industries which consume fewer raw materials; the other has comprised the whole range of new industrial techniques that have emerged from the scientific advances of recent decades: considerable economies, for instance, have been achieved in the utilization of some materials through the introduction of new processes, such as electrolytic plating of tin.

These factors, which have depressed demand for primary commodities as a whole, have caused the trends in demand for individual commodities to diverge widely from each other. For one thing, the rising level of consumer incomes has brought about substantial changes in consumption habits and this has favoured some commodities, often at the expense of others; the tendency towards greater equalization of personal incomes has similarly modified the pattern of consumption.

#### CONCLUDING REMARKS

The detailed analysis of exports from 1954-57 has pointed out three main factors. First, that the central government depends to a considerable extent on exports for revenue and hence fluctuations in export receipts affect the Ghana economy. Second, the instability of world prices

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<sup>23</sup> U.N., World Economic Survey, 1958, op. cit., p. 22.

for primary commodities and minerals, and hence variations in foreign exchange receipts. Third, the inelastic supply of such commodities.

The great reliance on exports, especially cocoa, for foreign exchange receipts means that the national income of Ghana is particularly affected by conditions of the export values. In 1950, for instance, exports accounted for 40.8% of the national income, in 1957, it was 33.9%; while in the eight year period from 1950-57 the average has been 37.1%. Particularly significant is the variation in the exports of cocoa which accounts for nearly 75% of total exports. In the year 1955 the export value of cocoa fell by 22.4% over the 1954 peak year and brought the national income down by 3.5%.

Fluctuations in export receipts are the joint products of variations in the volume of Ghana's exports and in the prices of commodities that enter into her export trade. Since primary commodities constitute the bulk of the exports of Ghana, it is the fluctuations in the price and export volume of these commodities that chiefly affect the volume of foreign exchange receipts.

Fluctuations in price were no doubt an important factor, but by no means the major element, in producing fluctuations in total proceeds. Even with stable prices, significant fluctuations in export proceeds would have occurred if other factors had remained the same. On the whole, fluctuations in volume tended to intensify the effect of price changes.

This wide fluctuations over short periods in the prices of stable raw materials are the combined result of secular, cyclical, yearly, seasonal and random forces. The seasonal factor is very important, at least so far as agricultural commodities are concerned, e.g. cocoa. Even for commodities for which there is a steady demand, the seasonal factor alone would account for a price variation at least equal to the cost of interest and of storage

involved in holding stocks. It has been estimated that such costs amount to approximately 10 per cent.<sup>24</sup> Further, the inability or unwillingness of primary producers to hold stocks until market demand improves puts them at a disadvantage and causes prices to fall. The general inelasticity of supply for most staple raw materials in the short run contributes a further element of price instability.

An illustration of such inelasticity of supply is the seven-year time lag in the adjustment of cocoa supplies to changes in demand. Since cocoa production is continuous when cocoa trees have reached maturity, the impact of a falling market is concentrated entirely on price declines, while the response to a rising demand is sluggish, so that prices soar. The range of price variation may therefore be extreme, and would cause foreign exchange receipts to vary widely.

In Ghana, the cocoa producer is to some extent protected from the full impact of reduced export earnings caused by price falls through the stabilization funds built up by the Cocoa Marketing Board,<sup>25</sup> but the impact on the revenue of the central government is great. While government revenue depend to some extent on the level of producers' incomes, in addition, export duties form a large proportion of total revenue in Ghana, which is therefore very sensitive to price fluctuations for export commodities.

The effect of changes in world prices of cocoa is clearly reflected in the current account of the central government. This is given

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<sup>24</sup> J. M. Keynes, "Policy of Government Storage of Foodstuffs and Raw Materials", *Economic Journal*, September, 1938. Treatise on Money, Vol. 2, Chapter 29. (McMillan, New York, 1930).

<sup>25</sup> See Chapter 5 for detailed discussion on this topic.

in Table 26.

TABLE 26  
CURRENT ACCOUNT OF CENTRAL GOVERNMENT

£ thousand

INCOME	1950	1951	1952	1953	1954	1955	1956	1957
Income Tax	4,040	4,636	6,271	5,956	5,903	5,559	4,694	4,890
Import Duties	7,297	9,105	9,591	11,395	12,462	14,578	15,220	16,707
Other Taxes on Expenditure	657	805	844	967	993	1,249	1,643	1,984
Cocoa Duties	7,597	12,902	15,850	18,166	41,372	27,723	14,641	12,502
Other Income from Property	1,903	2,719	3,673	4,943	4,957	4,647	5,408	5,998
Current Grants	691	266	1,851	2,184	2,505	2,466	3,010	2,989
<b>TOTAL</b>	<b>22,185</b>	<b>30,433</b>	<b>38,080</b>	<b>43,611</b>	<b>68,441</b>	<b>56,022</b>	<b>44,716</b>	<b>44,770</b>

Source: Economic Survey, 1957, Table 6a Appendix.

A glance at the Table reveals the importance, in the current account, of cocoa duties. As to be expected, the value of export duties move together with variations in the export price of cocoa. Cocoa duties increase during high cocoa prices and decline during low cocoa prices.

In 1954, for instance, cocoa accounted for 74% of Ghana's total exports (see Table 17) and the revenue from the export duty on cocoa contributed about 60% to the income of the central government. The decline of the share of cocoa in the total value of Ghana's exports to 69% in 1955 and 59% in 1956 largely reflects the fall in cocoa prices, which in turn reduced its contribution to the central government's revenue to 50% in 1955 and 33-1/3% in 1956.

The assumption on the part of the government that the price of cocoa would remain low resulted in an extremely conservative budget in the 1957 fiscal year, and the second Five Year Development Plan was replaced by a Two-Year Consolidation Programme,<sup>26</sup> Subsequent events, however, proved that the earlier assessment of the situation had been unduly pessimistic. Instead, in 1957, the cocoa market began to recover, rising from £170 per ton in March to £275 in September and to £324 per ton in mid-November. This upsurge in prices was largely due to a rise in world consumption of cocoa at the lower prices prevailing in 1956 and in the first half of 1957, and to the gloomy forecasts of crop prospects in Brazil and other West African producers, though, to some extent, the rise in prices was also aided by the action of the Brazilian authorities to fix their minimum selling price at the equivalent of a London c.i.f. quotation of over £270 per ton.<sup>27</sup>

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<sup>26</sup> United Nations, Economic Development in Africa, (New York, 1957), p. 11.

<sup>27</sup> U.N. Economic Development in Africa, ibid, p. 11.



CHAPTER THREE - ANALYSIS OF IMPORTS

We discussed in the previous Chapter the importance of export trade in the economy of Ghana; we also noted the wide cyclical and seasonal fluctuations in the export value of commodities exported by Ghana and the effect on Ghana's ability to earn foreign exchange essential for its development. In this Chapter, we shall discuss imports, factors which determine the volume of imports entering the country, consumption patterns and the effects imports have on the economy.

We begin with a detailed analysis of imports for the period 1954-57 to indicate the substantial increase in the demand for imported goods and changes in the source of supplies.

Table 27 gives the total average value and volume of imports by commodity group. There was a substantial increase in the value of imports into Ghana in 1955 which amounted to £87.9 million, 23.5% greater than the total of £71.2 million in 1954. Average c.i.f. values in 1955 decreased by 2% overall in comparison with 1954 and the volume index for imports in 1955 stood at 127 (1954 = 100).

The fall in c.i.f. unit values varied from between 1% to 9% compared with the previous year in individual groups, the exceptions being beverages and tobacco in which unit value rose by 1%, chemicals in which the increase was 3%, and machinery and transport equipment which showed little change. The volume of imports was higher over all classes of goods, the largest increase being in imports of miscellaneous manufactured goods.

Arising from the further progressive relaxation of licensing

TABLE 27

## TOTAL VALUE, AVERAGE VALUE AND VOLUME OF IMPORTS BY COMMODITY GROUP

	TOTAL <sup>(1)</sup>	FOOD	BEVERAGES & TOBACCO	MINERAL FUELS	CHEMICALS	MANUFACTURES CLASSIFIED BY MATERIALS		MACHINERY & TRANSPORT EQUIPMENT	MISCELLANEOUS MANUFACTURED ARTICLES	MISCELLANEOUS TRANSACTIONS
						TEXTILES	OTHER			
<u>Value c.i.f.</u> (£ thousand)										
1953	73,803	11,282	4,155	4,664	4,239	16,220	12,803	12,957	7,264	31
1954	71,155	11,260	3,656	4,634	4,427	15,590	12,135	12,247	5,236	1,644
1955	87,868	13,252	4,432	5,454	5,510	19,226	15,574	15,040	7,355	1,535
Percentage change on 1954	+23.5	+17.7	+21.2	+17.7	+24.5	+23.3	+28.3	+22.8	+40.5	-6.6
Average Value Index										
1954	100	100	100	100	100	100	100	100	100	100
1955	98	99	101	97	103	91	101	100	92	95
Volume Index										
1954	100	100	100	100	100	100	100	100	100	100
1955	127	118	120	122	121	136	123	122	153	105

(1) Includes £188,000 in 1953, £326,000 in 1954 and £490,000 not classified under the headings shown.

Source : Economic Survey, 1955, Table I.

controls on imports during 1955, there were further changes in the sources of supply of Ghana imports. The source of supply of imports is given in Table 28.

TABLE 28  
IMPORTS BY SOURCE

	£ million		% of Total Value	
	1954	1955	1954	1955
United Kingdom	34.6	41.6	48.6	47.3
Rest of Sterling Area	4.1	5.7	5.8	6.5
Non-Sterling O.E.E.C. Countries and Possessions	19.3	21.9	27.1	24.9
Canada	1.2	0.8	1.7	0.9
United States	2.8	3.3	3.9	3.8
Other American Account Countries	0.3	1.0	0.4	1.1
Other Countries	7.4	12.1	10.4	13.8
Parcel Post	1.5	1.5	2.1	1.7
TOTAL	71.2	87.9	100.0	100.0

Source: Economic Survey, 1955, Table 2.

An examination of Table 28 reveals the fact that the total value of imports from the United Kingdom increased by £7.0 million in 1955 to £41.6 million representing 47.3% of Ghana's imports in 1955 in comparison with 48.6% in 1954. In preceding years, the percentage of total imports obtained from the United Kingdom has ranged between 50% and 60%, the actual share each year depending on current licensing requirements in the light of the balance of payments position between the Sterling Area and other countries.

The rest of the Sterling Area provided 6.5% of total imports in

1955 against 5.8% in 1954. The most marked increase was in imports from Hong Kong; these amounted to £1.5 million and consisted mainly of miscellaneous manufactured articles. Imports from the Union of South Africa were also higher and amounted to £1.4 million. (See Table 5).

The value of imports from the non-sterling O.E.C. countries and possessions increased by £2.6 million to £21.9 million in 1955. This increase was not sufficient to maintain the share of this group of countries in Ghana imports, which fell from 27.1% in 1954 to 24.9% in 1955. There were in addition, marked changes in the positions of individual countries. From Switzerland, France and Upper Volta (French West Africa) the value of imports in 1955 was smaller than in the previous year. Although imports from the Netherlands, mainly consisting of foodstuffs, beverages, tobacco and manufactured goods, increased by £1.1 million, imports from the Netherlands West Indies decreased by £0.9 million.

The increase in the value of imports from the Netherlands was not sufficient to maintain that country's position in Ghana market and Japan replaced her in 1955 as Ghana's main source of supply after the United Kingdom.

The total of imports from all dollar countries increased from £4.3 million in 1954 to £5.1 in 1955 and there was little change in the relative importance of imports from all dollar sources. Imports from the United States amounted to £3.3 million or 3.8% of the total; imports from Canada fell from the level of £1.2 million in 1954, and at £0.8 million were smaller in value than imports from other American Account countries. These latter countries became more important in Ghana trade mainly as the result of the partial replacement of imports of petroleum products from the Netherlands West Indies by imports from Venezuela.

The most significant change in the source of supply of Ghana imports in 1955 was the emergence of Japan as the main supplier after the United Kingdom; imports from Japan increased from £5.3 million in 1954 to £8.9 million in 1955, the main types of goods supplied being fish preparations, cotton and rayon piece goods, clothing made-up textile articles, floor coverings, tapestries and corrugated iron sheets. The value of imports from Argentina, Czechoslovakia and East Germany also showed considerable increases in 1955.

END-USE ANALYSIS OF IMPORTS, 1954-55.

Increased imports for personal consumption accounted for the greater part of the higher import bill for 1955 in comparison with 1954. Table 29 shows the analysis of imports by end-use.

TABLE 29

ANALYSIS OF IMPORTS BY END-USE

END-USE	£'000		%	
	1954	1955	1954	1955
Non-durable Consumers' goods				
Food, drink and tobacco	10,950	13,721	15.4	15.6
Textiles and clothing	15,753	20,138	22.2	22.9
Other	6,138	7,725	8.6	8.8
TOTAL	32,841	41,584	46.2	47.3
Durable Consumers' goods				
Private Vehicles & Accessories	2,137	2,845	3.0	3.2
Other	4,622	5,857	6.5	6.7
TOTAL	6,759	8,702	9.5	9.9
Non-durable Producers' goods				
Materials for drink, food and tobacco	4,078	4,193	5.7	4.8
Materials for agriculture	1,110	992	1.6	1.1
Materials for industry & commerce	3,934	5,096	5.5	5.7
Animal and Vegetable Oils & Fats	132	135	0.2	0.2
TOTAL	9,254	10,376	13.0	11.8
Durable Producers' goods				
Materials	8,162	10,878	11.5	12.4
Capital Equipment	10,080	11,662	14.1	13.3
TOTAL	18,242	22,540	25.6	25.7
Fuels and Lubricants	4,059	4,666	5.7	5.3
TOTAL IMPORTS	71,155	87,868	100.0	100.0

Source: Economic Survey, 1955, Table 3.

Imports of consumer goods in 1955 amounted to 57.2% by value of total imports, or 1.5% higher than in 1954. Imports of producers' goods fell in relative importance though greater in absolute value. The increase in imports of consumers' goods was proportionately greater in the case of non-durables especially textiles, clothing and accessories which were imported to the value of £20.1 million in 1955 against £15.8 million in 1954. Imports of cotton fabrics, valued at £11.8 million in 1955 were 19% greater in value than the preceding year. In the case of textile fabrics other than cotton, the value of imports in 1955 at £4.84 million was 47% above 1954. The other groups of consumers' goods all showed a small proportionate increase in 1955 above the previous year.

The absence of any significant industrial activity is emphasized by the relatively small increases in imports of manufacturing materials. In particular, imports of materials for food, drink and tobacco manufacture and materials for agriculture amounted to only 5.9% of total imports in 1955 compared with 7.3% in 1954. Imports of live animals, chiefly for food, were slightly smaller in value in 1955 than in the preceding year, there was a small increase in the value of imports of wheat meal and flour from £1.98 million to £2.16 million.

The increase from 11.5% to 12.4% in the proportion of the value of total imports accounted for by durable materials for building and construction was spread generally over all sub-groups with the exception of railway construction materials, imports of which dropped. Building activity continued at a higher rate during 1955 and supplies from overseas were generally easier. The value of imports of capital equipment increased from £10.08 million in 1954 to £11.66 million in 1955, the proportion to

the value of total imports falling 14.1% to 13.3%. Imports of commercial vehicles increased substantially to £1.09 million in 1955; there were also general increases in the value of imports of various types of machinery and equipment in 1955 in comparison with the previous year, although the value of imports of railway transport equipment decreased.

#### YIELD FROM IMPORT DUTIES

The importance of import duties can clearly be seen in the current account of the Central Government (see Table 26). Because imports have increased consistently since 1950, the import duties have also increased annually during the same period. Unlike export duties which show wide fluctuations in yields, import yields have been rising steadily without any fluctuation at all. For instance, there was an increase in yield of 28.5% between 1950 and 1951.

The yield from import duties at £15.00 million in 1955 showed a substantial increase of £2.54 million or 20.4% over the 1954 total of £12.46 million (see Table 26). There were certain changes in duty in 1955, notably increases in the duty on beer and other alcoholic beverages, but the greater duty collected was in the main a reflection of the increased volume and value of imports.

Beverages and tobacco, the duties from which in 1955 amounted to £6.25 million, continued to be the main source of revenue under this head, but the yield expressed as a percentage of total import duty fell from 44.9% in 1954 to 41.6% in 1955. The percentage of total import duty collected on mineral fuels also fell from 16.9% in 1954 to 15.5% in 1955, when the yield was £2.33 million. The major increase was in collections from duty on manufactured goods including increased imports of textiles; duties on these items yielded £3.46 million in 1955, in contrast to £2.55 million in 1954, and accounted for 23.1% of total import duty collected.

DETAILED ANALYSIS OF IMPORTS, 1956 - 57

Table 30 gives the total value, average value and volume of imports by commodity group. The value of total imports c.i.f. into Ghana in 1957 amounted to £96.7 million, which was £7.7 million or 8.6% greater by value than the 1956 total of £88.9 million. The index of average c.i.f. values increased by one point from 101 in 1956 to 102 in 1957, while the import volume index increased from 123 in 1956 to 133 in 1957.

**TABLE 30**  
**TOTAL VALUE, AVERAGE VALUE AND VOLUME OF IMPORTS BY COMMODITY GROUP**

	(1) TOTAL	FOOD	BEVERA- GES AND TOBACCO	MINERAL FUELS	CHEMI- CALS	MANUFACTURES CLASSIFIED BY MATERIALS		MACHI- NERY & TRANS- PORT EQUIP- MENT	MISCEL- LANEOUS MANU- FACTURED ARTI- CLES	MISCEL- LANEOUS TRANSAC- TIONS
						TEXTILES	OTHER			
<u>Value c.i.f.</u> (£ thousand)										
1954	71,050	11,260	3,656	4,634	4,427	15,590	12,134	12,247	5,236	1,540
1955	87,877	13,252	4,432	5,454	5,511	19,228	15,575	15,040	7,357	1,538
1956	88,920	14,119	4,249	5,090	6,203	17,493	15,181	17,110	7,246	1,787
1957	96,565	17,438	3,924	6,845	7,194	19,903	14,568	16,502	8,030	1,629
Percentage change on 1956:	+8.6	+23.5	- 7.6	+34.5	+16.0	+13.8	-4.0	-3.6	+10.8	-8.8
Average Value Index										
1954	100	100	100	100	100	100	100	100	100	100
1955	98	99	101	97	103	90	105	100	92	95
1956	101	99	102	101	107	92	111	105	96	122
1957	102	101	104	109	115	89	110	109	98	128
Volume Index										
1954	100	100	100	100	100	100	100	100	100	100
1955	127	118	120	122	120	137	123	122	153	105
1956	123	126	114	109	131	122	113	133	144	95
1957	133	153	103	135	142	144	109	124	157	83

(1) Includes £326,000 in 1954, £490,000 in 1955, £442,000 in 1956 and £532,000 in 1957 not classified under the heading shown.

Source : Economic Survey, 1957, Table 7.



The pattern of changes from 1956 to 1957 was not the same for all sections of the import list. All except one of the major sections of the import list showed increases in the average value index, ranging from two points in food, beverages and tobacco and miscellaneous manufactured articles to eight points in mineral fuels and chemicals, but these sufficed only to change the combined index expressed in whole numbers from the 1956 level of 101 to 102 in 1957 (1954 = 100).

The sharp rise in the total value of imports in 1957 compared with 1956 was accounted for in general by the marked increase in the volume of goods imported. The volume increases were particularly marked in the case of food, mineral fuels and textiles, while chemicals and miscellaneous manufactured articles also increased in volume. The fall in the volume of imports of beverages and tobacco was accounted for by the local manufacture of cigarettes and to a lesser extent, by an increase in the local manufacture of beer.

#### SOURCE OF SUPPLY

With reference to the sources of supply for imports into Ghana the major trends, as in previous years, continued in 1957, that is, the continuing steady loss by the United Kingdom of part of its share in Ghana's imports and the strengthening of the position of 'Other Countries', particularly Japan.

Table 31 gives the data for Ghana's imports and sources in 1957.

TABLE 31  
IMPORTS BY ORIGIN

	Value £ m.		% of total value	
	1956	1957	1956	1957
United Kingdom	41.7	40.7	46.9	42.3
Rest of Sterling Area	5.5	5.9	6.2	6.1
Non-Sterling O.E.E.C. countries & possessions	22.9	25.6	25.8	26.5
Canada	0.9	1.0	1.0	1.0
United States	3.4	4.7	3.8	4.8
Other American Account Countries	0.7	1.9	0.8	1.9
Other Countries	12.0	15.2	13.5	15.7
Parcel Post	1.8	1.6	2.0	1.7
TOTAL	88.9	96.6	100.0	100.0

Source : Economic Survey, 1957, Table 8.

As a result of the continuing relaxation of licensing controls after the war years and the emergence of alternative sources of supply, the proportion of total imports obtained from the United Kingdom has tended to decrease, although she still retains her position as Ghana's major supplying country. The value of imports from the United Kingdom at £40.7 million in 1957 was £1.0 million lower than in 1956, despite the increase of over 8% in the total value of imports between these two years; expressed as a percentage of the total, imports from the United Kingdom decreased from 46.9% in 1956 to 42.3% in 1957.

Although in each case the value of imports increased as a result of the higher total value, there was little change in the proportion of

imports coming from the Rest of the Sterling Area, or from non-sterling O.E.E.C. countries. There were, however, marked increases in the value of imports from the dollar countries and from 'other countries'.

Imports from the dollar countries which amounted to £5.0 million in 1956 increased to £7.6 million in 1957; this increase was accounted for by a rise of £1.3 million in imports from the United States due mainly to larger imports of wheat and of certain mineral fuels and a rise of £1.2 million in the value of imports from 'Other American Account Countries' as a result of larger purchases of mineral fuels with imports from Canada practically unchanged.

The value of imports from 'Other Countries' increased from £12.0 million in 1956 to £15.2 million in 1957, and the percentage of total imports from 13.5% to 15.7%. Within this group, Japan consolidated her position as Ghana's major source of supply after the United Kingdom, increasing her share to total imports from 10.1% in 1956 to 10.7% in 1957 mainly as a result of larger imports of printed and piece-dyed synthetic fibres. There were also increases of £0.4 million in the value of imports from 'other countries in Asia' due to rice imports, of £0.3 million in imports from China due to imports of grey unbleached and white bleached cotton fabrics and of £0.3 million in imports from Czechoslovakia as a result of general increases in imports of manufactured articles from that country.

The change in the proportion of total imports obtained from certain countries and in the relative importance of these countries as sources of supply for Ghana's imports are illustrated in Table 32 showing the value of imports by country for the years 1956 and 1957, which

lists in order all countries supplying more than 1% by value of Ghana's total imports in 1957.

TABLE 32  
IMPORTS BY COUNTRIES, 1956-57.

	Value £ m.		% of total value	
	1956	1957	1956	1957
United Kingdom	41.67	40.74	46.9	42.2
Japan	8.96	10.30	10.1	10.7
Netherlands	7.36	7.95	8.3	8.2
Germany, Western	4.51	5.32	5.1	5.5
United States	3.37	4.66	3.8	4.8
Upper Volta (French West Africa)	2.29	2.18	2.6	2.3
Countries in South America (American Account)	0.70	1.87	0.7	1.9
Italy	2.03	1.85	2.3	1.9
Belgium-Luxemburg	1.27	1.74	1.4	1.8
France	1.53	1.68	1.7	1.7
Parcel Post	1.78	1.62	2.0	1.7
Union of South Africa	1.21	1.50	1.4	1.5
India	1.26	1.42	1.4	1.5
Czechoslovakia	1.13	1.41	1.3	1.5
Netherlands West Indies	0.76	1.16	0.8	1.2
Hong Kong	1.08	1.03	1.2	1.1
Canada	0.93	0.97	1.0	1.0
Other	7.07	9.16	8.0	9.5
TOTAL	88.92	96.57	100.0	100.0

Source: Economic Survey, 1957, Table 9.

END-USE ANALYSIS OF IMPORTS

In Table 33 we give the analysis of imports by end-use. In 1957 increased imports for personal consumption accounted for the major part of the larger volume of imports, thus repeating the pattern of 1955 when, as shown in Table 33, there was also a marked increase in the volume of imports in comparison with the preceding year.

TABLE 33  
ANALYSIS OF IMPORTS BY END-USE

END - USE	Value £'000		% of Total Value		Volume Index 1954 = 100	
	1956	1957	1956	1957	1956	1957
Non-durable consumers' goods						
Food, drink & tobacco	13,554	15,844	15.3	16.3	127	143
Textiles and clothing	17,371	20,617	19.5	21.4	118	147
Other, including footwear	8,129	9,427	9.1	9.8	137	150
TOTAL	39,055	45,889	44.0	47.5	125	146
Durable consumers' goods						
Private vehicles & accessories	3,187	3,285	3.6	3.4	147	143
Other	5,898	5,672	6.6	5.9	124	115
TOTAL	9,085	8,957	10.2	9.3	132	124
Non-durable Producers' goods						
Materials for food, drink and tobacco	5,004	5,763	5.6	6.0	114	138
Materials for agriculture	1,840	1,924	2.1	2.0	165	163
Materials for industry & commerce	4,797	5,463	5.4	5.7	114	127
Animal and vegetable oils and fats	119	166	0.1	0.2	134	210
TOTAL	11,760	13,316	13.2	13.8	120	137
Durable Producers' goods						
Materials	11,105	9,927	12.5	10.3	119	110
Capital Equipment	13,460	12,512	15.1	13.0	123	108
TOTAL	24,565	22,439	27.6	23.2	121	109
Fuels & Lubricants	4,455	5,964	5.0	6.2	108	131
TOTAL IMPORTS	88,920	96,565	100.0	100.0	123	133

Source: Economic Survey, 1957, Table 10.

Expressed as a percentage of total value, consumer goods accounted for 56.8% of total imports in 1957 compared with 54.2% in 1956. Of the total increase of 2.6% for this class non-durable consumer goods increased by 3.5% from 44.0% in 1956 to 47.5% in 1957 while durable consumer goods decreased by 0.9% from 10.2% in 1956 to 9.3% in 1957. Fuels and lubricants increased by 1.2% from 5.0% in 1956 to 6.2% in 1957. These increases were counter-balanced by a fall in the proportion of total imports accounted for by durable producer goods which decreased from 27.6% in 1956 to 23.2% in 1957. In general, the pattern of imports in 1957 was similar to that of 1955 when 57.2% of total imports was accounted for by consumer goods, 37.5% by producer goods and 5.3% by fuels and lubricants.

In volume terms, expressed as an index with 1954 = 100 the main changes in the pattern of imports between 1956 and 1957 were an increase of 21 points or 17% from 125 in 1956 to 146 in 1957 for non-durable consumers' goods and a decrease of 12 points, or 10% from 121 in 1956 to 109 in 1957 for durable producers' goods, the smaller volume of imports being concentrated in capital equipment rather than materials. The volume of durable consumer goods imported also fell by 6% from 132 in 1956 to 124 in 1957. There was a marked increase of 21% from a volume index level of 108 in 1956 to 131 in 1957 in the case of fuels and lubricants while the volume of non-durable producer goods imported in 1957 was 14% greater than in 1956, the volume index increasing from 120 to 137.

### YIELD FROM IMPORT DUTIES

The importance of import duties to the Central Government has been noted earlier in the Chapter; the rising trend in the yields from imports continued in 1956 and 1957 as well.

Total receipts from import duties rose by over £1.5 million from £15.2 million in 1956 to £16.7 million in 1957 despite a reduction of £1.04 million in the yield from beverages and tobacco. Total customs and excise collections for 1957, however, did not suffer from the smaller imports of cigarettes since excise duty collections on cigarettes amounted to £1.05 million during the year.

All other sections showed increases in duty collections with increases of £600,000 in the case of mineral fuels, £1.4 million in the case of manufactured articles classified chiefly by material, which includes textiles, and £325,000 in the case of miscellaneous manufactured articles. The two major changes in indirect taxation during 1957, which increased import duties on motor spirit and dyed-in-the-piece cotton and silk goods, accounted for part of the increased collections referred to; the remainder of the increased yields during the year reflected the increased volume of imports.

From the analysis of the detailed imports in the period 1954-57 we have seen how imports have been rising annually during the period; we have also noted changes in consumption pattern towards increased demand for consumer goods; food, drink, textiles, private vehicles, etc; whereas in the early forties, the people of Ghana imported a limited variety of goods, the import list in the fifties contains a wide variety of items. We have noted changes in the sources of Ghana's import, that there has been a shift away from the United Kingdom, Ghana's traditional source of supply, to other countries, notably Japan, the Netherlands and the

United States of America.

The steady annual increases of imports in the period suggest that incomes have been rising too. The analysis also suggests that the range of domestic substitutes for imports and the elasticity of their supply are very small, that is, the opportunities of substituting domestic for imported goods in response to changes in their relative prices are very limited. In fact, Ghana could hardly be regarded as underdeveloped if it produced a full line of consumer and capital goods.

In the next section, we shall discuss how changes in income affect the demand for imported goods.

#### INCOME CHANGES AND IMPORTS.

It is a well-established fact that the higher the level of real per capita income, the greater is the portion of consumer's expenditure on imported goods and services.<sup>1</sup> During periods of rapid increases in real per capita income or changes in the distribution of income, therefore, the pattern of demand is likely to undergo considerable modification.

A country in an open economy will normally devote some portion of her total current expenditure to the purchase of imported goods and services; the proportion of income spent on imports is called the average propensity to import. It has been estimated by Chang that on the whole the industrialised countries tend to have a higher average propensity to import than agricultural countries.<sup>2</sup> There is therefore a straightforward connection between the progress of economic development and larger imports.

1. W.M. Stone, 'Marginal Propensity to Consume and the measurement of the Multiplier', Review of Economic Studies, October, 1938, pp.1 - 21.

2. Chang, op. cit., p.27.



The rise of real income per capita in a country improves its fundamental capacity to produce and maintain a high level of economic activity, and hence a high standard of living; that is, if a country has a higher real income per capita compared with others, it becomes able to buy more imports paying for them by increased exports. Poor countries on the whole have low average propensity to import, because of their low average productivity and real per capita income.

The average propensity to import for various countries may vary from low values of 2 or 3 per cent, as in the Soviet Union and most underdeveloped countries<sup>3</sup>, to 20 to 40 per cent in small, highly specialized countries, such as Belgium or New Zealand. What this means is that the average propensity to import will depend on the size of the country and the degree of its specialization.

Chang concludes from his study of thirty-one countries that 'the two fundamental factors which determine the economic self-sufficiency of different countries in the world, are the level of real income per capita and the degree of specialization of home production in exports'.<sup>4</sup>

Much more important than the average propensity for our present purpose is the marginal propensity to import<sup>5</sup>. This is the change in imports associated with a given change in income. If imports rise by \$100 million, when income increases by \$1 billion, then the marginal propensity to import will be 0.10. There is thus a direct relationship between a country's total imports and its national income

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3. In the case of the Soviet Union, this is also partly explained by state control of international trade.

4. Chang, op. cit., p. 34.

5. Symbolically, the average propensity to import is  $M/Y$ , the marginal propensity to import is  $dM/dY$ .

the larger its income, other things being equal, the greater will be its demand for imports; it follows that any change in income will tend to cause a change in imports.<sup>6</sup>

The marginal propensity to import in underdeveloped countries is likely to differ from the average propensity to import. We can illustrate this with two typical examples. Ghana, for instance, supplies most of its basic needs but has a standard of living not much above subsistence level. As the standard of living improves, it leads to the import of new types of goods not available at home. In this case the average propensity to import is low but the marginal propensity may be high. On the other hand, a country like Britain, which imports a number of necessities, e.g. wheat, tobacco, and produces luxury products at home has a high average propensity to import but the marginal propensity is low.

The relation between the average propensity and the marginal propensity to import is expressed by the ratio 'income elasticity'. This is defined as the percentage change in imports associated with a given percentage change in national income. If a 5 per cent increase in national income produces a 10 per cent increase in the value of imports then the income elasticity of imports is relatively high, 2; if, on the other hand, a 5 per cent increase in national income produces a change in imports of only  $2\frac{1}{2}$  per cent, then imports are income-inelastic, or 0.5. When a given percentage change in income leads to an equal percentage change in imports, the income elasticity of demand for imports is unity, or 1.

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<sup>6</sup> This assumes free international trade. Where trade is restricted by the imposition of tariffs, quotas, etc., or where income is saved, this proposition will not hold. However, it could be said that there is a potential propensity to import with rising levels of income.

Expressed in algebraic terms, income elasticity is measured by  $(dM/M / dy/Y)$  which is the percentage change in imports associated with a given percentage change in national income. Since

$$\frac{dM/M}{dy/Y} = \frac{dM/dY}{M/Y}$$

income elasticity can be computed by dividing the marginal propensity to import by the average propensity. If these are the same value, the income elasticity of imports is unitary. The average propensity to import at various levels of national income is the import schedule or propensity to import; the marginal propensity to import is the slope which measures the relation between increased income and imports.

Thus an autonomous increase of expenditure or exports at home will cause the domestic national income to increase by a multiple of the coefficient given by the multiplier. In an open economy, as national income increases, some part of the increase will be spent on imports; and some will leak into domestic savings. The ultimate level of income will tend to be higher than the original increase in domestic expenditure or exports by a multiple of the increased spending and more goods will be bought from abroad, this is called the foreign trade multiplier.

This means that if exports or domestic expenditure rises by 10 and if the marginal propensity to consume is  $3/4$  and the marginal propensity to import is  $1/4$ , the value of the home multiplier will be 2; national income will increase by 20, with a marginal propensity to import of  $1/4$ , the rise in imports will be 5. A large value of the marginal propensity to consume will increase the home multiplier, a large value of the marginal propensity to import will diminish it.<sup>7</sup> For that part of increased income which is spent on domestic goods goes on generating a further rise in income,

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<sup>7</sup> Ellsworth, P.T., The International Economy, Revised, McMillan Company, New York, 1958, p. 225.

while that part which leaks abroad has no such direct effect.

If we allow for the foreign repercussion or play-back effect of increased expenditure occurring in one country, the induced imports generated by the rising national income will stimulate an increase in income in other countries which in turn will call forth for increased imports from the first country, further re-enforcing the rise in its income.<sup>8</sup>

In the last Chapter, we showed the relationship between national income of Ghana and its exports; we showed there that the national income is affected by the value of the exports, we also indicated that the part played by the export value in the determination of the national income is weakening. We shall attempt to show in the next section the part being played by government expenditure, but before we do that, we intend to show the relationship between national income and imports.

We have argued that as per capita income increases, people are likely to spend more of their increased income on imported goods. The relationship between national income and imports is given in the following Table for the years 1950-52 in millions of pounds sterling.

TABLE 34  
RELATIONSHIP BETWEEN INCOME, IMPORTS AND EXPORTS

YEAR	Y	M	X
1950	187.9	48.1	77.4
1951	229.6	63.8	91.9
1952	238.8	66.6	86.3

Source : Compiled from Tables 3 and 16.

The first two columns of the Table show national income and imports respectively, the third column, which shows exports, will be discussed

<sup>8</sup> See Machlup, F., International Trade and the National Income Multiplier, (Richard D. Irwin, Inc., Homewood, Ill. 1953), pp.76-79.

presently. In 1950 when national income was £187.9 million, imports were valued £48.1 million, but in the following year, imports jumped to £63.8 million, a percentage increase of about 33, while the increase in national income was about 22. In 1952, when the national income increased by only 8 per cent, the increase in imports was only 4.5 per cent; this suggests that imports depend on the level of income, with a time lag of about 12 months.

When we compare national income and exports, we can see that both income and exports increased in 1951 over 1950, but whereas the value of exports declined in 1952, national income increased slightly as well as the value of imports. This will suggest that other income yielding elements are present in the economy and this we shall now turn.

#### GOVERNMENT EXPENDITURE

In this section we shall attempt to show how government expenditure has increased over the years as a result of the stepped-up economic development. In the next section we shall show how this increased government expenditure has generated purchasing power into the economy which has led to an increased demand for imported goods.

In Chapter One we discussed the government's two Five Year Development Plans and we gave figures to show how much the two plans would cost. We have also shown that imports have increased considerably over the past eight years. In the forties and early fifties, government expenditure was small and hence imports were also small. As government expenditure increased demand for imported goods also increased, and this has had its balance of payments effects.

Table 35 gives the government's expenditure from 1947 to 1957.

TABLE 35  
GOVERNMENT EXPENDITURE - 1947 - 1957 £'000

	E X P E N D I T U R E <sup>*</sup>			DEVELOPMENT EXPENDITURE	
	Total, including Extra-ordinary	Transfers to Development Funds	Other Including Extra-ordinary	From Surplus Assets	Development Funds
1947	9,789	-	9,789	1,177	
1948	10,179	-	10,179	1,309	
1949	12,232	-	12,232	1,911	
1950	18,669	4,594	14,075	3,759	
1951	27,375	10,524	16,854	61	6,487
1952	38,481	13,709	24,772	-	13,915
1953	44,243	14,377	29,866	-	15,591
1954	79,860	46,551	33,309	-	15,004
1955	62,208	15,988	46,220	-	25,271
1956	43,818	850	42,968	-	12,665
1957	17,175	-	47,175	-	16,588

\* Expenditure excludes transfers from surplus assets amounting to £9 million in 1951-52 and to £12.7 million in 1953-54.

Source: Handbook of Commerce & Industry, p. 19.

The Table clearly illustrates the considerable increase in public expenditure which has taken place since after the war. Expenditure for economic development began in 1951 with the start of the first Five Year Development Plan. This heavy expenditure by the central government has had its multiplier effects on the economy; domestic incomes have increased considerably and this has led to increased demand for imported goods.

Because there are no import substitutes at home, most of the increased demand for consumption is dissipated on imported goods. If there were domestic substitutes for these imported goods, domestic national income would have increased more.

The year 1955 marked the fifth year of the government's First Five Year Development Plan. Of a total planned expenditure to date of £121.6 million on development projects of all kinds £98.9 million had been spent up to 31st December 1955. A Two-year Consolidated Development Plan began in January 1956 to December 1957 and called for an expenditure of £44.7 million; so that from 1951 to 1957 inclusive, the government spent a grand total of £143.6 million on development projects alone in addition to its normal current expenditure.

The government's objective in this period has been to expand and improve government services and at the same time to provide a physical framework of communications essential to the long-term development of the country. In addition to meeting the building needs of an efficient public service the Development Plan provided the funds required to lay the foundations of a comprehensive educational system and countrywide system of health services, which would ensure that there should be an adequate supply of manpower for the future, possessing the various degrees of skill and training required for both manual, technical and professional activities. These have been the primary objectives of expenditure and very substantial progress has been made in this direction throughout the seven-year period.

GENERAL ANALYSIS OF IMPORTS

The analysis in the previous section has shown that expenditure on imports is a function of the national income, that as per capita income rises, some portion of the rise in income will be spent on imports. The analysis also showed that on the whole underdeveloped countries have a high marginal propensity but low average propensity to import.

Ghana, like many other underdeveloped countries, is not free from this impact of increased demand for imports with a rising national income. In contrast with the comparatively slow growth of production, imports have been rising rapidly. The volume of imports, adjusted for changes in prices, has increased by 82% since 1950.

This rapid increase of imports is due to a lack of balance between public expenditure and domestic production of consumer goods. Rapidly increasing government expenditures have generated purchasing power which has drained into imports, because domestic production has not been able to keep pace. In the late 1940's and early 1950's,<sup>9</sup> government expenditure was small, so imports were small; but with the accelerated development expenditures, imports have risen.

The effect of the expansion of agricultural services in the past few years on the national output of agricultural products is difficult to estimate. At present there is no way of securing accurate annual agricultural statistics and the level and trend of production can be correctly estimated for crops of which the whole or the major part is exported. It is probably true that production is increasing and farmers throughout Ghana are enjoying a higher standard of living than in the past. They are producing a better variety of crops for their own consumption and also more cash crops to yield a money income.

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<sup>9</sup> Before the first Five Year Development Plan was adopted.



Ghana farmers have probably in recent years increased their production of food crops fast enough to keep pace with the growth of population, but not with the rising standard of living. Crops grown locally for consumption have substantially increased but there are many food items on the import list which are bought only with rising income and which are not obtainable locally.

The volume of imports into the country is determined primarily by the amount of purchasing power in circulation. The amount of purchasing power, in turn, is determined mainly by three sets of payments; Cocoa Marketing Board purchases of cocoa, private capital investment and government expenditure. The role of the first two are small, that is, both the Board's payments and private capital formation have increased little; therefore, it is legitimate to assume that the prime determinant of the level of imports has been government expenditure, current and capital.

Some of the private capital formation has been in the export industries, and helps to explain why exports other than cocoa increased by 55% during 1950-55. Most of the rest was in houses and commercial buildings rather than in productive enterprise, and it is this deficiency of investment for home consumption which explains why imports have been rising so rapidly.

For instance, food production is not keeping pace with increased demand for consumer goods; this is clear from the increase in food imports which have been growing by 7% per annum over the past five years, and are now in 1957 twice as high as in 1950. Imports of flour continues to grow rapidly but imports of fish, meat, milk and sugar are growing even more rapidly. In 1957, Ghana imported food valued at £17.4 million; this large market clearly presents a great challenge to improve the productivity of food farming in the country.

Thus as government expenditures rise, unless home production keeps pace with consumption, the increased incomes generated will raise the import function. Ghana has now experienced large balance of payments deficits for two successive years (1956 and 1957) and there is reason to assume that the country would have balance of payments deficits for a number of years.

The suggestion has been made by Prof. Ragnar Nurkse that in underdeveloped countries there operates an important factor which he terms the 'demonstration effect'.<sup>10</sup> He argues that modern communications and the spread of knowledge are so rapid and effective that the inhabitants of poor countries know all about the high standard of consumption enjoyed by most people in rich countries such as the United States, and that there is a strong desire and temptation to enjoy as much of this attractive way of living as incomes permit. There are so many known and desired objects of consumption that, when income rises, little of the increase is saved; most or all of it is spent on imports - items of food, clothing, household gadgets made familiar in most corners of the earth by means of the cinema, the radio, the printed word and the activities of dispersed communities of foreigners.

One form of demonstration effect thus involves direct imitation of consumption pattern, the incorporation in the domestic standard of living of new items of consumption. Another may involve government expenditures on conspicuous and often spectacular projects to imitate the technical achievements of the more advanced countries. Whatever its origin, the result of the international demonstration effect, (to the extent that it operates) is a rise in consumption for imported goods and a reduction in domestic saving.

Perhaps we have unintentionally created an alarming impression by our analysis of increased demand for imported goods, but under the

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<sup>10</sup> Nurkse, R., Problems of Capital Formation in Underdeveloped Countries, Oxford 1953, Chapter III.

circumstances, there was no solution for Ghana but to import those goods not available in the country. A wiser policy is to produce those goods in which Ghana may have comparative advantage and to import those which it cannot produce at home, such as producer goods. As noted in Chapter I above in the Second Development Plan, this is what the Ghana Government proposes to do.

#### CONSUMPTION PATTERN

There is reason to believe that the international demonstration effect has operated in Ghana during the period under study. The principal imports are cotton and rayon piece goods, food, drink and tobacco, building materials, petroleum products, motor vehicles and machinery. There is a great competition in a host of consumer articles, ranging from bicycles to radios, from soap to patent medicine, gramophones to ball pens. These items are imported by all and sundry, by large firms and by individuals. As indicated in Chapter One, consumers' goods usually top the import list.

It is in the import business that expatriate firms are particularly active; the greater part of the import trade of Ghana is in the hands of a relatively few large overseas trading companies who deal in almost every type of merchandise. These companies maintain trading stores in practically all towns in Ghana and therefore operate an effective and efficient distribution service. A number of trading firms of intermediate size are owned and operated by Lebanese, a few by Indians and Syrians.

However, quite a number of wholly owned Ghanaian firms have in recent years become established as direct importers, although the volume of business they do is relatively small compared with the big firms. The Ghana Chamber of Commerce is doing much sound work in educating Ghanaian traders in international trading methods. There are also in Ghana, a number of

Resident Manufacturers' Agents, who help to bring the Ghanaian trader more closely in touch with overseas sources of supply.

In Table 36 we give the end-use analysis of imports from 1951-57. An examination of the Table shows the high proportion of consumer goods which account for the total value of imports. Consumer goods have usually accounted for more than 50% of the total value of imports; the outstanding increases in individual items have been food, textiles and private vehicles. Particularly significant, and perhaps because of the operation of the international demonstration effect, has been the rapid rise in the value of imports of footwear, which has shown more than 192% increase since 1951. In the producers' goods imports, the most notable increases are materials for agricultural production, producers' materials and equipment.

Table 37 gives the average c.i.f. values of imports in the years 1954 - 57 (1954 = 100). As we have indicated earlier, the import index has changed little since 1954, varying within a range of 98 - 102, whereas fluctuations in the export index have been substantial.

TABLE 37

AVERAGE VALUE INDICES AND TERMS OF TRADE

	Imports	Exports	Terms of Trade <sup>¶</sup>
1954	100	100	100
1955	98	85	115
1956	101	68	150
1957	102	65	157

<sup>¶</sup> Ratio of import to export average values; a fall indicates a favourable movement.

Source : Economic Survey, 1957, Table 15.

TABLE 36

99a.

## End-Use Analysis of the Value of Imports, 1951-57

£ thousand

End-Use	1951	1952	1953	1954	1955	1956	1957
<b>Non-durable Consumers' Goods:</b>							
Food .....	6,528	5,768	7,417	7,294	9,289	9,305	11,921
Drink .....	2,090	2,097	2,293	2,076	2,540	2,499	2,244
Tobacco .....	1,509	1,924	1,894	1,580	1,892	1,750	1,679
Textiles .....	15,621	14,578	16,820	15,753	20,142	17,372	20,617
Footwear .....	447	416	907	816	962	1,081	1,307
Other .....	4,434	5,079	5,734	5,321	6,764	7,048	8,121
<b>Total</b>	<b>30,608</b>	<b>29,862</b>	<b>35,065</b>	<b>32,841</b>	<b>41,589</b>	<b>39,055</b>	<b>45,889</b>
<b>Durable Consumers' Goods:</b>							
Private Vehicles	1,640	1,693	1,989	2,137	2,845	3,187	3,285
Other .....	4,084	3,995	4,804	4,622	5,837	5,898	5,672
<b>Total</b>	<b>5,724</b>	<b>5,688</b>	<b>6,793</b>	<b>6,759</b>	<b>8,682</b>	<b>9,085</b>	<b>8,957</b>
<b>Non-durable Producers' Goods:</b>							
Materials for food, drink & tobacco . . .	3,295	3,693	3,839	4,078	4,192	5,004	5,762
Materials for agricul. production . . . . .	1,299	1,769	830	1,110	993	1,840	1,924
Materials for mining Industry & Commerce ..	4,008	3,975	3,926	3,934	5,057	4,797	5,463
Animal & Vegetable oils	58	92	111	132	135	119	166
<b>Total</b>	<b>8,660</b>	<b>9,529</b>	<b>8,706</b>	<b>9,254</b>	<b>10,377</b>	<b>11,760</b>	<b>13,316</b>
<b>Durable Producers' Goods:</b>							
Producers' materials...	7,337	7,761	8,397	8,162	10,877	11,105	9,927
Producers' equipment...	7,753	9,195	10,909	10,080	11,686	13,460	12,512
<b>Total</b>	<b>15,090</b>	<b>16,956</b>	<b>19,306</b>	<b>18,242</b>	<b>22,563</b>	<b>24,565</b>	<b>22,439</b>
Fuels & lubricants . . .	3,711	4,576	3,933	4,059	4,666	4,455	5,964
<b>Total Imports</b>	<b>63,793</b>	<b>66,611</b>	<b>73,803</b>	<b>71,155</b>	<b>87,877</b>	<b>88,920</b>	<b>96,565</b>

Source: Handbook of Commerce and Industry, p.45.

It is apparent from the Table that the terms of trade began to show signs of weakness in 1955; the terms of trade are calculated by the Ministry of Trade of Ghana as the ratio of import to export average values. A fall in the index of terms of trade therefore indicates a favourable movement. As a result of the decrease of three points between 1956 and 1957 in the export average value index combined with a rise of one point in the import average value index over the same period, the index of the terms of trade, which stood at 150 in 1956, increased to 157 (1954 = 100); in other words, the terms of trade moved against Ghana in 1957 compared with 1956 and a greater volume of exports was required in 1957 than in 1956 to pay for a constant volume of imports.

The unfavourable movement in the terms of trade has had serious repercussions on the balance of payments of Ghana; the next Chapter is devoted to the analysis of the balance of payments.

#### CHAPTER FOUR - BALANCE OF PAYMENTS

We have seen in Chapter Two that the national income of Ghana is influenced largely by the value of exports, and that there are wide fluctuations in the demand for the exports of Ghana. The demand for Ghana's export depends on the state of economic activity in the industrial countries of North America and Western Europe, and its principal export, cocoa, is bought only when incomes rise but becomes inelastic at higher levels of income and a saturation point is reached in which demand actually slackens off.

We have also seen in Chapter Three that rising levels of income call for increased demand for imports; while the export values have wide cyclical fluctuations in them, we have shown that imports have been rising steadily from 1950 to 1957 without any marked fluctuations in them. We then concluded that if imports did not fall when the value of exports fell, then other elements in the economy were responsible for the rising levels of imports; we attributed this to the increased government expenditure.

The post-war commodity boom, plus the increased government expenditure, have increased incomes all around. This general rise in the level of income, coupled with lack of import substitutes, has led to increased demand for imported goods in Ghana; how this situation has affected Ghana's external trade is the subject of this Chapter.

#### CYCLICAL FLUCTUATIONS IN INCOME ACCOUNT

Before discussing the balance of payments of Ghana in greater detail, we shall point out first the several broad facts which Ghana has in common with all the primary commodity exporting countries. The first fact is that the internal economic fluctuations of this type of country

are extremely sensitive to, and are predominantly determined by, the external factors. The distribution of world natural resources makes agricultural countries follow the classical pattern of international division of labour.

Because of this geographical specialization, and because the produce cannot be consumed locally, they have to dispose of it in the world market. But the amount they can sell is closely correlated to the level of world income. Hence the value of their total annual production and prices are sensitive to the changes in the world income and tend to have violent cyclical fluctuations.

Cyclical fluctuations in the income and production of the economically advanced nations of Europe and North America generally cause repercussions on the balance of payments of primary producing countries. Because the imports of industrial countries consist to such a large extent of raw materials, the demand for which is closely related to manufacturing production, cyclical fluctuations in the industrial countries generally affect their import demand for raw materials to a greater degree than their import demand for manufactured goods and foodstuffs. Since the principal export markets of raw material producing countries are the industrial countries, the balance of payments of raw-material exporting countries are especially susceptible to sharp cyclical fluctuations.

Two other elements aggravate the balance of payments problem of such countries. One is the sharp changes in the international prices of raw materials caused by cyclical fluctuations in the world demand for raw materials together with the generally very inelastic supplies of such commodities. The second is the magnification of the cyclical changes in the industrial countries' import demand for raw materials because of the build-up or draw-down of their inventories of raw materials. Inventory changes are unstable and uncertain and this is certainly the case with



respect to crude raw materials.

Moreover, the internal economic activity of primary producing countries is also sensitive to external forces because of the cyclical instability in the international flow of long-term capital. The primary producing countries rely upon foreign long-term capital for their internal investment or development purposes. In general, the absolute amount of foreign lending by the world's creditor nations tends to move positively with the world cycle. Hence, in general, world prosperity brings increased lending to the primary producing countries which helps to strengthen their economic expansion, while during a slump, lending is decreased (or the net repatriation of long-term capital) which reduces investment activity and thus aggravates the contraction.

The second fact is that the pattern of the cyclical behaviour of the income account of primary producing countries is just opposite to that of the industrial countries. Chang has estimated the pattern of cyclical behaviour of eleven agricultural countries and came to the conclusion that the balance of merchandise trade tends to show a deficit during a general world prosperity and a surplus during a slump and recovery.<sup>1</sup> (However, this phenomenon does not apply in the case of Ghana. The main export, cocoa, is a luxury good, bought only when incomes rise; the rest of the exports are industrial raw materials, demand for which are geared to economic activity in the industrial countries. So that Ghana's balance of merchandise trade would tend to show a deficit during world depression and a surplus during world prosperity). The general reason for this cyclical pattern, according to Chang, would seem to be that the effect of the relative quantity changes tends to more than offset the effect of the relative

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<sup>1</sup> Chang, op. cit., p. 169.

price changes. For instance, in prosperity, the terms of trade change in favour of agricultural countries, therefore, the deficit in the balance of merchandise trade must be caused by a large unfavourable change in the relative quantities.

The third factor common to underdeveloped countries is that development on a large scale by the government is likely to produce some measure of balance of payments pressure and changes in the economic structure. It is not inconceivable that a development plan aiming at greater self-sufficiency may lead to continuous balance of payments deterioration, through the withdrawal of labour from the export industries, the rising luxury consumption of growing urban population, the importation of capital goods, and the mounting returns on the investment of foreigners. This state may necessitate the need for exchange depreciation or to continuous need for foreign capital.

However, this need not happen. As Wallich has pointed out,<sup>2</sup> it is just as well conceivable that the terms of trade may improve through a reduced supply of exports if the country in question is an important world market supplier, rapid gains in agricultural productivity may free a large sector of the labour for industrial production, and foreign capital may arrive in excess of needs -- all of which would make for a strong balance of payments picture. It is recognized that underdeveloped countries may experience balance of payments pressure in the initial stages of accelerated planned government expenditure.

GENERAL REMARK ABOUT GHANA'S BALANCE  
OF PAYMENTS

In contrast with the comparatively slow growth of production, imports have been rising rapidly. The volume of imports, adjusted for

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<sup>2</sup> See Wallich, op. cit., p. 28.

changes in prices, has increased by 82% since 1950, whereas it is improbable that production as a whole has increased by as much as 25% during the same period.

This rapid increase of imports is due to the same lack of balance which the preceding chapter has analysed. Rapidly increasing government expenditures have generated purchasing power which has drained into imports because domestic production has been unable to keep pace. As a result, Ghana has now experienced large balance of payments deficits for two successive years.

As explained in the previous Chapter, the volume of imports into the country is determined primarily by the amount of purchasing power in circulation. The amount of purchasing power in turn, is determined mainly by three sets of payments, viz., Cocoa Marketing Board purchases of cocoa, government expenditure, and private capital investment. Cocoa Marketing Board payments have increased very little (12%) and private capital formation also has increased little, hence we can say that the prime determinant of the level of imports has been government expenditure, current and capital, which increased by £30.5 million between 1950 and 1955.<sup>3</sup>

Government expenditure had been held at a low level in the early 1950's and so imports were small, and large balances were built up in London. But with the inception of the accelerated development plan begun in 1951, the rate of government spending, recurrent and capital, together caught up with government revenue in 1955, and Ghana may expect a balance of payments deficits for a number of years to come. The deficit was £13.3 million in 1956 and £14.4 million in 1957. These balance of payments deficits are due mainly to the deficits of the Central Government and of the Cocoa Marketing Board. The nominal value of the United Kingdom securities of these two

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<sup>3</sup> Economic Survey, 1957, op.cit., p. 3.

taken together fell by £16.4 million in 1956 and by a further £11.7 million in 1957.

Owing to the fall in world prices, the Cocoa Marketing Board incurred a trading loss of £1.5 million in 1956 and £6.1 million in 1957.<sup>4</sup> In addition to these losses, the Cocoa Marketing Board spends between £3 and £4 million a year on cocoa industry reconstruction, scholarships, grants to local authorities, building secondary schools and other such activities. The loss on trading account, however, is not a matter for concern, since the stabilization fund was created to make it possible to prevent any rapid fall in the internal price of cocoa in those occasional seasons when the world price falls very rapidly.<sup>5</sup>

But the Central Government's deficits raise different issues. Here too an occasional deficit caused by an abnormally low cocoa price is no cause for concern. However, the Central Government may now be expected to be in deficit in most years, and this is quite a different matter.

In the fiscal year 1956-57, current expenditure was £41.8 million as against ordinary revenue of £45.7 million, leaving a current surplus of only £3.9 million as a contribution towards development expenditures totalling £17.5 million. This overall deficit of £13.6 million is the chief reason why United Kingdom securities held by the Central Government diminished by £15.7 million between June 1956 and September 1957 (see Table 40).

The ordinary revenue was rather low in 1956-57 because of a depressed cocoa price. Revenue, excluding cocoa duties, was £33.6 million, and cocoa duties were around the £12 million mark. The average of cocoa duties from 1952/53 to 1956/57 has been £23.0 million. If the duties had been as high as this in 1956/57 there would still have been an overall

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<sup>4</sup> Economic Survey, 1957, *ibid.*, p. 4.

<sup>5</sup> See next Chapter for detailed discussion on this.

deficit of £2.7 million, and if development expenditure had been £20 million as is projected for the next five years, the overall deficit, assuming average cocoa duties, would have been £5.2 million.

It is therefore clear that, unless the price of cocoa exceeds the average of the past five years, the Central Government will, if expenditure is maintained at present rates, be spending more than it receives, and running down its overseas balances. The era of Ghana building up reserves can now be said to have come to an end.

The main reason for this is the sharp increase in current expenditure, which rose from £24.1 million in 1952-53 to £41.8 million in 1956-57, or by £17.7 million; whereas revenue, excluding cocoa duties, rose only by £9.0 million in the same period. An increase of ordinary expenditure by 73% in four years is formidable by any standards, and while much of this is due to the inevitable expansion of the social services, some of it may not have been absolutely essential. Nevertheless, given that social services' expenditure will continue to rise, it is clear that at the current rate of taxation,<sup>6</sup> it will soon be necessary for Ghana to finance nearly the whole of development expenditure by running down her assets or by new borrowing.

Meanwhile, the rate at which Ghana's foreign assets are diminishing gives cause for alarm (see Table 40). It can be argued that the money was saved in order to be spent, so its spending should not cause concern. It is also arguable that if it is not spent it deteriorates in value, because the prices of commodities are rising in the meantime, while security prices have even fallen since the country built up its holdings. (For instance the fall in security prices in September 1957 resulting from the raising of the United Kingdom Bank Rates was unexpected not only in Ghana but also in many

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6. In comparison with other countries, Ghana has not yet developed a proper system of internal taxation, through such sources as the personal income tax, consumption taxes or adequate charges for such public services as water, electricity and transport facilities. Reform of the tax structure cannot be long postponed if the country is to continue to be able to pay for the development it needs.

other countries of the Sterling Area). These arguments lead to the conclusion that Ghana should be glad to run down its foreign assets as soon as possible by investing the money instead in useful capital works in the country.

There is much force in these arguments. On the other hand, it would be imprudent to spend heavily for three or four years after which period all developments stopped abruptly for lack of funds. However, the policy of spending as much as can be spent wisely during the Second Development Plan period, can be reconciled with the policy of retaining a large part of its assets to finance a Third Development Plan, if it can borrow as much as it can for the Second Development Plan, although Ghana could finance it from its own holdings.

This solution also provides a hedge against Ghana's money depreciating as prices increase, it provides this hedge because any depreciation in the purchasing power of assets it holds, is automatically offset by the same depreciation in the purchasing power of what it has to repay. Borrowing will also save Ghana the embarrassment of having to sell some of its long-dated securities, whose market prices have fallen sharply, until their prices have risen again due to the approach of their maturity dates.

Borrowing will cost Ghana no more than using its own money, since the interest it has to pay is the same as the interest it would have to forego by selling its securities. For all these reasons the government has decided to pursue what may otherwise seem to be the paradoxical policy of borrowing as much as it can for the Second Development Plan, although the country has already enough foreign assets from which the Plan could be financed.

THE RELATION OF CYCLICAL BEHAVIOUR IN THE GHANA  
INCOME ACCOUNT

The ratio of the value of exports to Ghana national income is roughly from 30 to 40 per cent; this means that a very large proportion of her home production is engaged in making exports. Moreover, the degree of her specialization in her exports is very high; in fact, cocoa export accounts for 75 per cent of total exports. In other words, Ghana is not only dependent upon the world markets, but also this dependence is concentrated upon one crop.

Of Ghana's imports more than 70 per cent are manufactured goods, and she also imports foodstuffs to a great extent. Among the manufactured imports, machinery and textiles bulk large.

During cyclical fluctuations, the variations in the import and the export quantity are respectively determined by Ghana and by world income. By the nature of the imports and exports, the two income elasticities tend to be high. Hence the cyclical pattern of the Ghana balance of trade is that it tends to have a surplus in times of world prosperity and a deficit during world depression or recession; the magnitude of the change in the trade balance is very great.

Ghana has run a surplus in her trade in visible items; the debit items are interest and dividend payments, freight and shipping payments; travel expenses, while the credit items are official and private miscellaneous services and export of non-monetary gold. Except for the gold export, all other transactions are influenced by cyclical fluctuations.

One interesting thing about the balance of payments is the absence of any receipt from freight and insurance on merchandise, another feature is the steady increase in investment income receipts. Another marked feature

of the balance of payments is the pattern of the invisible trade, it shows net deficits in the eight-year period from 1950-57; this should be so as the country is undeveloped. Income from investment is cancelled out by payments of shipping costs, rents, payments for insurance, etc.

In Chart 4 we give the cyclical pattern of Ghana income account. The cyclical movement of total receipts is clearly seen. The gradual weakening of primary commodity prices which had been noticeable since 1954 continued into 1955-57. In the meantime, total payments have shown considerable increase since 1950. Not all primary commodities showed the same downward trend in 1957.

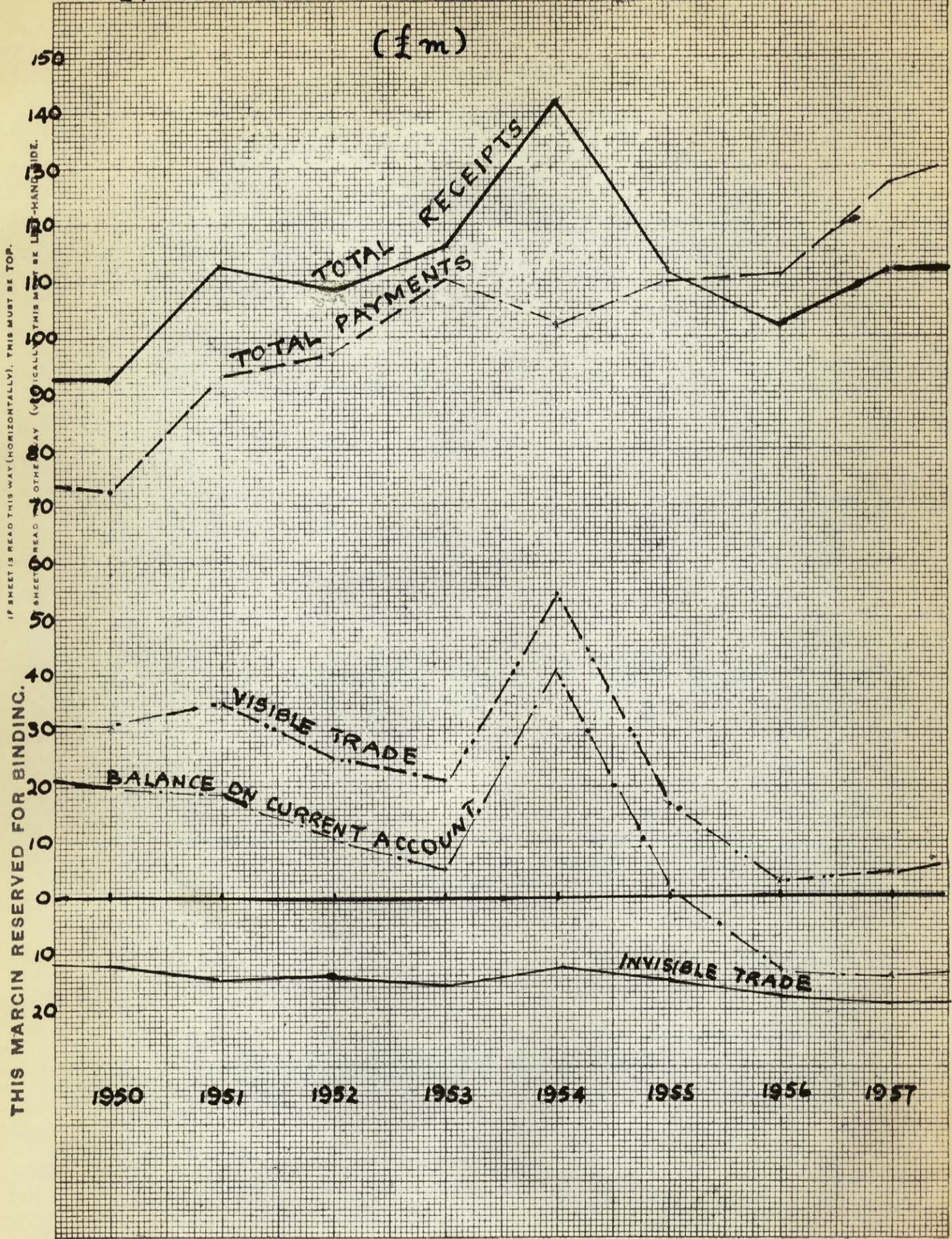
Nevertheless, since the price index of manufactured goods in international trade continued to rise during this period, the terms of exchange between primary commodities and manufactured goods became progressively less favourable to primary producers.

Cocoa has been an exception to the downward trend. After a decline of 34 per cent in 1955 and of 28 per cent in 1956, cocoa continued its decline through March 1957. Since then, there has been a reversal in the trend, and cocoa has increased in price owing mainly to a low West African crop.

It will be seen from Chart 4 that the years 1956 and 1957 were deficit years for Ghana; the reversal in the downward trend in cocoa prices from March of 1957 was not sufficient to outweigh the net imports both for consumption and capital goods coming into the country. The pattern of cyclical behaviour in the current account shows a typical case of an underdeveloped country. As development gets under way, these underdeveloped countries usually tend to increase their imports, and since their exports are subject



CHART 4  
 MANUFACTURED BY: RENOUF PUBLISHING CO., MONTREAL  
 CYCLICAL PATTERN OF INCOME ACCOUNT



to world income, any downward shift in the demand for these exports produces balance of payments difficulties.

DETAILED ANALYSIS OF BALANCE OF PAYMENTS ON  
CURRENT ACCOUNT

Table 38 gives the balance of payments on current account of Ghana from 1950-57. It will be seen that except in the last two years, Ghana has had surpluses on its current account. Looking at the table closely, we can show that total current payments have shown a general rising trend except in 1954, whereas the story in the current receipts is quite different.

Although total current receipts have been rising through the years, but notice the sharp fluctuations around this trend. These sharp fluctuations are clearly seen in the merchandise receipts which depend mainly on the world price of cocoa. Notice also the phenomenal growth in merchandise payments, from £45.8 million in 1950 to £89.1 million in 1957; this is because of the large increases in imports which we discussed in the third chapter.

In 1957 for the second year in succession, Ghana was in deficit on its current balance of payments. In 1956 there had been a very marked deterioration in Ghana's balance of payments on current account with a deficit of £13.3 million in comparison with a current surplus of £1.8 million in the previous year. In 1957 the deficit on current account increased by £1.1 million to £14.4 million consisting of a surplus of £4.2 million in the case of visible trade including non-monetary gold and a deficit of £18.6 million on the balance of invisible transactions.

It will be seen from the Table that visible trade, including non-monetary gold, accounted for the bulk of the increases of £9.8 million and £10.9 million in the totals of current receipts and payments between

# TABLE 38

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## Balance of Payments on Current Account

	1950	1951	1952	1953	1954	1955	1956	1957
<b>Receipts</b>								
<b>A. Goods and services</b>								
1. Merchandise	68,202	85,524	77,448	82,430	110,057	90,964	78,043	83,630
2. Non-monetary gold	8,688	8,552	9,128	9,365	9,740	8,975	7,428	9,714
3. Freight & insurance on merchandise	-	-	-	-	-	-	-	-
4. Other transportation	767	992	1,197	1,128	1,202	1,298	1,378	1,626
5. Travel	235	482	712	911	1,048	942	904	1,042
6. Investment income	2,182	2,711	3,451	3,545	3,926	4,853	4,961	5,159
7. Official miscellaneous services	1,254	1,388	1,496	1,460	1,526	1,588	1,063	921
8. Private miscellaneous services	11,381	12,161	14,838	16,169	13,859	12,752	17,725	19,528
Total goods & services (1 through 8)	92,709	111,810	108,270	115,008	141,358	121,372	111,502	121,620
<b>B. Transfer Payments</b>								
9. Private	141	129	142	148	155	130	100	90
10. Official	177	151	77	505	944	267	859	580
Total Transfer Payments (9 Plus 10)	318	280	219	653	1,099	397	959	670
Total Current receipts	93,027	112,090	108,489	115,661	142,457	121,769	112,461	122,290
<b>Payments</b>								
<b>A. Goods and services</b>								
1. Merchandise	45,841	59,439	61,482	71,038	66,237	82,979	82,323	89,128
2. Non-monetary gold	-	-	-	-	-	-	-	-
3. Freight and insurance on merchandise	3,964	7,011	6,774	6,535	6,465	8,110	8,624	9,576
4. Other transportation	689	1,255	1,590	1,751	2,049	2,187	2,545	2,789
5. Travel	1,035	1,562	1,881	2,191	2,417	2,811	3,148	3,183
6. Investment income	7,213	8,072	6,595	6,874	6,377	5,761	5,563	6,013
7. Official miscellaneous services	588	682	770	959	674	926	1,018	1,434
8. Private miscellaneous services	13,293	14,248	17,353	19,004	16,786	16,019	21,373	23,403
Total goods & services (1 through 8)	72,623	92,269	96,445	108,352	101,005	118,793	124,594	135,526
<b>B. Transfer Payments</b>								
9. Private	188	205	282	427	353	782	938	904
10. Official	137	315	280	1,681	360	354	271	293
Total Transfer Payments (9 Plus 10)	325	520	562	2,108	713	1,136	1,209	1,197
Total Current payments	72,948	92,789	97,007	110,460	101,718	119,929	125,803	136,723
<b>Balance on current account</b>								
of which (a) visible trade	+20,079	+19,301	+11,482	+5,201	+40,739	+1,840	-13,342	-14,433
including non-monetary gold	+31,049	+34,637	+25,094	+20,757	+53,560	+16,960	+3,148	+4,216
(b) invisible trade	-10,970	-15,336	-13,612	-15,556	-12,821	-15,120	-16,490	-18,649

Source: Economic Survey, 1957, Table 16

1956 and 1957. On balance, however, the net changes in the components of the overall increase were relatively small. Of the increase in the total deficit of £1.1 million, £0.8 million was on account of goods and services and £0.3 million on account of transfer payments.

The favourable balance of visible trade which amounted to £3.1 million in 1956, increased to £4.2 million in 1957. The unfavourable balance on account of merchandise increased from £4.3 million in 1956 to £5.5 million in 1957 but an increase of £2.3 million on account of receipts for non-monetary gold brought about the net increase of £1.1 million in the balance of visible trade.

The improvement in the balance of visible trade was accompanied by a deterioration of £2.2 million in the unfavourable balance of invisible items, the most important factors being an increase of £1.0 million in payments for freight and insurance on merchandise and an increase of £0.6 million in the net payments for the 'official miscellaneous' group, mainly on account of reduced receipts for military expenditure.

At the time of the marked deterioration in Ghana's balance of payments which began to show signs in 1955, there was only a relatively small change in Ghana's favourable balance with the non-sterling area countries, and the total deterioration of £15.1 million was concentrated on its unfavourable balance with the Sterling Area which increased by £17.2 million from £4.9 million in 1955 to £22.1 million in 1956. The regional balance of payments on current account is shown in Table 39.

In 1957 on the other hand, Ghana's current deficit with the Sterling Area was reduced as was also its surplus with all non-Sterling Area countries. As regards the Sterling Area higher receipts were obtained from cocoa and gold while payments for imports were reduced; despite, therefore, an increase

in net invisible payments Ghana's current deficit with the Sterling Area was reduced by £6.5 million from £22.1 million in 1956 to £15.6 million in 1957. There was also a large swing in the pattern of payments with the dollar countries, with which Ghana had a favourable balance of £12.2 million in 1956. In 1957, however, cocoa earnings were substantially reduced while the cost of payments was increased, and the favourable balance on current account was reduced by £6.9 million to £5.3 million.

In the case of the non-Sterling O.E.E.C. countries and possessions likewise cocoa earnings were reduced and import costs increased, but a rise in receipts from exports other than cocoa and gold limited the decrease in Ghana's favourable current balance to £1.6 million. The small improvement of £0.9 million in Ghana's unfavourable balance with 'other countries' between 1956 and 1957 was mainly accounted for by a rise in the value of cocoa exports.

TABLE 39

## REGIONAL BALANCE OF PAYMENTS ON CURRENT ACCOUNT

	GRAND TOTAL	STERLING AREA	NON-STERLING AREA			
			TOTAL	DOLLAR COUNTRIES	NON- STERLING O.E.E.C. COUNTRIES & POSSES- SIONS	OTHER COUNTRIES
<u>1954</u>						
Cocoa Exports	+89.6	+31.8	+57.8	+15.0	+34.9	+7.9
Gold Sales	+9.7	+9.7	-	-	-	-
Other Exports	+20.5	+12.1	+8.4	+3.8	+4.5	+0.1
Imports f.o.b.	-66.2	-36.7	-29.5	-4.1	-18.1	-7.3
Invisible payments (net)	-12.9	-0.7	-12.2	-0.8	-11.1	-0.3
Balance on Current Account	+40.7	+16.2	+24.5	+13.9	+10.2	+0.4
<u>1955</u>						
Cocoa Exports	+69.7	+22.4	+47.3	+14.0	+28.3	+5.0
Gold Sales	+9.0	+9.0	-	-	-	-
Other Exports	+21.3	+12.1	9.2	4.0	+4.9	+0.3
Imports f.o.b.	-83.0	-45.8	-37.2	-5.0	-20.4	-11.8
Invisible payments (net)	-15.2	-2.6	-12.6	-0.8	-10.9	-0.9
Balance on Current Account	+1.8	-4.9	+6.7	+12.2	+1.9	-7.4
<u>1956</u>						
Cocoa Exports	+49.9	+9.7	+40.2	+12.9	+26.7	+0.6
Gold Sales	+7.4	+7.4	-	-	-	-
Other Exports	+28.1	+16.9	+11.2	+5.1	+6.0	+0.1
Imports f.o.b.	-82.3	-47.1	-35.2	-4.4	-21.0	-9.8
Invisible Payments (net/	-16.4	-9.0	-7.4	-1.4	-3.2	-2.8
Balance on Current Account	-13.3	-22.1	+8.8	+12.2	+8.5	-11.9

/1957 (Cont'd. overleaf)

TABLE 39 (cont'd)

	GRAND TOTAL	STERLING AREA	NON-STERLING AREA			
			TOTAL	DOLLAR COUNTRIES	NON- STERLING O.E.E.C. COUNTRIES & POSSES- SIONS	OTHER COUNTRIES
<u>1957</u>						
Cocoa Exports	+52.8	+14.0	+38.8	+ 8.8	+25.4	+ 4.6
Gold Sales	+9.7	+9.7	-	-	-	-
Other Exports	+30.8	+16.5	+14.3	+5.0	+9.1	+0.2
Imports f.o.b.	-89.1	-45.2	-43.9	-6.8	-24.3	-12.8
Invisible Payments (net)	-18.6	-10.6	8.0	-1.7	- 3.3	- 3.0
Balance on Current Account	-14.4	-15.6	+ 1.2	+5.3	+6.9	-11.0

Source: Economic Survey, 1957, Table 17.

OVERSEAS BALANCES

In 1957 as in 1956, the deficit on Ghana's current balance of payments was met by running down Ghana's overseas assets rather than by increased overseas investment or short-term capital movement in Ghana. As Table 40 shows, Ghana has built up large reserves of overseas balances through its exports of cocoa and minerals. These overseas balances show increases every year from 1949 until 1956 when the country began to experience adverse trade deficits.

In 1956 it is estimated that the total overseas assets of Ghana decreased by almost £15 million from £211.2 million at 31st December 1955, to £196.4 million at 31st December 1956, the major changes being a decrease of £5.1 million in the value of Central Government assets and a decrease of £11.3 million in the short-term holdings of the Cocoa Marketing Board.

The Table gives the total overseas assets of Ghana at nominal value in the case of long-term holdings. The short-term assets are mainly holdings of the Cocoa Marketing Board, the banking institutions and the Central Government. The Cocoa Marketing Board's holdings are made up of current assets and liabilities at nominal values together with current and deposit accounts with United Kingdom banks. Central Government holdings are composed of cash with the Crown Agents, balances with other Governments and cash in transit.

In 1957 the total overseas assets of Ghana decreased by about £13.8 million from £196.4 million in 31st December to £182.6 million at 31st December 1957. This decrease is accounted for mainly by a reduction in Central Government holdings of £9.8 million. There was also a decrease of £1.9 million in the short-term assets and cash holdings of the Cocoa Marketing Board.



## Overseas balances of Ghana: Nominal value

	Total	Official institutions		Banking institutions	Other public authorities	Cocoa Marketing Board	Other Government enterprises	Private institutions
		Central Government	Other including currency reserves					
£ thousand								
31 December, 1949								
Long term	68,420	13,350	28,831	-	1,611	21,813	2,815	-
Short term	14,140	4,108	-	- 415	18	9,433	127	889
Total	82,560	17,458	28,831	- 415	1,629	31,226	2,942	889
31st December, 1950								
Long term	80,341	15,601	32,268	-	1,478	26,363	2,881	1,750
Short term	33,032	2,958	-	3,841	44	25,665	458	66
Total	113,373	18,559	32,268	3,841	1,522	52,028	3,339	1,816
31st December, 1951								
Long term	109,797	28,382	34,462	-	1,403	41,363	2,937	1,250
Short term	27,439	1,839	-	2,819	35	22,003	440	303
Total	137,236	30,221	34,462	2,819	1,438	63,366	3,377	1,553
31st December, 1952								
Long term	118,166	34,598	36,458	-	1,303	41,363	3,194	1,250
Short term	26,943	6	-	6,615	6	19,601	507	208
Total	145,109	34,604	36,458	6,615	1,309	60,964	3,701	1,458
31st December, 1953								
Long term	117,425	33,865	35,463	1,120	1,134	41,423	3,170	1,250
Short term	42,726	4,932	-	9,005	27	24,454	4,101	207
Total	160,151	38,797	35,463	10,125	1,161	65,877	7,271	1,457
31st December, 1954								
Long term	144,975	63,868	37,149	1,681	1,016	36,576	3,435	1,250
Short term	52,374	12,519	-	8,972	57	29,529	939	358
Total	197,349	76,387	37,149	10,653	1,073	66,105	4,374	1,608
31st December, 1955								
Long term	167,793	80,676	37,900	2,420	2,797	36,812	3,462	3,726
Short term	43,372	3,442	-	11,345	204	26,237	1,285	859
Total	211,165	84,118	37,900	13,765	3,001	63,049	4,747	4,585
31st March, 1956								
Long term	158,813	78,796	30,398	1,764	2,723	36,812	3,623	4,697
Short term	48,814	5,275	-	13,287	220	27,907	1,329	796
Total	207,627	84,071	30,398	15,051	2,943	64,719	4,952	5,493
30th June, 1956								
Long term	153,703	77,598	26,560	1,764	2,723	36,812	3,532	4,714
Short term	50,048	6,127	-	14,725	207	26,895	1,304	790
Total	203,751	83,725	26,560	16,489	2,930	63,707	4,836	5,504

TABLE 40 contd.

Overseas balances of Ghana: Nominal value

£ thousand

	Total	Official institutions		Banking institutions	Other public authorities	Cocoa Marketing Board	Other Government enterprises	Private institutions
		Central Government	Other including currency reserves					
30th September, 1956								
Long term	155,001	77,981	27,375	1,764	2,717	36,812	3,608	4,744
Short term	41,585	1,440	-	9,647	193	28,083	1,511	711
Total	196,586	79,421	27,375	11,411	2,910	64,895	5,119	5,455
31st December, 1956								
Long term	166,428	78,087	40,725	1,764	2,718	36,812	3,599	4,723
Short term	28,003	960	-	9,956	157	14,900	1,148	882
Total	196,431	79,047	40,725	11,720	2,875	51,712	4,747	5,605
31st March, 1957								
Long term	162,404	78,291	34,386	1,764	2,720	36,812	3,619	4,812
Short term	32,307	1,507	-	12,487	161	16,412	888	852
Total	194,711	79,798	34,386	14,251	2,881	53,224	4,507	5,664
30th June, 1957								
Long term	158,607	78,050	30,786	1,764	2,720	36,812	3,646	4,829
Short term	30,902	172	-	9,034	152	19,553	1,065	926
Total	189,509	78,222	30,786	10,798	2,872	56,365	4,711	5,755
30th September, 1957								
Long term	147,375	67,909	29,636	1,764	2,720	36,812	3,673	4,861
Short term	33,239	174	806	7,804	113	20,967	2,438	937
Total	180,614	68,083	30,442	9,568	2,833	57,779	6,111	5,798
31st December, 1957								
Long term	153,612	66,913	36,721	1,764	2,721	36,812	3,701	4,980
Short term	29,010	2,383	1,437	8,960	67	12,954	2,058	1,151
Total	182,622	69,296	38,158	10,724	2,788	49,766	5,759	6,131

Source: Economic Survey, 1957, Table 18

Interestingly enough, the Ghana government did not impose any import restrictions during this period. In 1955 when the balance of payments began to show signs of deterioration, import restrictions were imposed, however, on goods from Japan in accordance with policies by the Sterling Area due to rapid and varied fluctuations in the balance of payments position between the two trading groups.<sup>7</sup> No doubt, the government thought that export earnings would soon pick up, as indeed they did in the latter part of 1957, and domestic production of essential goods began to appear on the domestic market.

Other changes during 1957 were relatively minor. Total balances included under the heading 'other official institutions including currency reserves' decreased by £2.5 million, due mainly to a reduction in the currency reserves. There is, however, a marked variation throughout the year in the total currency outstanding and over the period 31st December 1956 to 31st December 1957, there was a reduction of £4.0 million in the long-term holdings on account of currency reserves. Over the twelve months ending 31st December 1957, the overseas assets of the banks including the Bank of Ghana, decreased by £1.0 million, partly as a result of lower holdings of United Kingdom Treasury Bills, while there was an increase of £1.1 million in the holdings of 'other government enterprises' which covers, for example, the Industrial Development Corporation and the Railways and Harbour Administration.

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<sup>7</sup> Economic Survey, 1957, op. cit., p. 13.

CONCLUSIONS

The foregoing analysis of the balance of payments of Ghana has brought out two salient factors. In the first place, two assumptions could be made with regard to the various export elasticities. Because of the high concentration of primary agricultural raw materials, the income elasticity of world demand will be small; moreover, because Ghana is the principal supplier of her chief export in the world market, increases and decreases in the price of cocoa will not induce corresponding proportionate changes in the export quantity. This phenomenon of short-period inelastic supply was discussed in the chapter on exports.

The result of high concentration or specialization in one crop for export together with its short-period low elasticity of supply to changes in world prices, is the very sensitivity of the export price to changes in world demand for cocoa and tends to change more than proportionately to world income.

In the second place, Ghana imports consist mainly of consumer goods, producer goods and other manufactures as indicated in Chapter Three, and hence the import elasticity tends to be high. This means that as incomes increase people tend to spend more on imported goods because in an economy like Ghana, there are no import-substitute goods.

These two broad factors account for the fluctuations in the pattern of cyclical behaviour in the income account of Ghana which we have seen earlier in the chapter. Another cause for fluctuations in the income account is the increased purchasing power which has generated into the hands of the public through the increased government expenditure. Because domestic production of consumer goods have been unable to keep pace with the increased consumption, imports have been increasing rapidly.

This lack of balance between domestic production and increased consumption is very serious indeed, because the import surplus will cause much of the scarce supply of foreign exchange needed for capital imports to be dissipated on luxury imports to the disadvantage of the development programme.

The government has decided to raise development expenditure up to £20 million a year, and to keep it at that level for the next five years.<sup>8</sup> But unless at the same time domestic food production is stepped up, the resultant increased purchasing power through the multiplier effect will spill over into imports with a consequent deterioration in the balance of payments or drawing down on the overseas balances.

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<sup>8</sup> Economic Survey, 1957, op. cit., p. 7.

CHAPTER FIVECOCOA: AN EXPERIMENT IN PRICE STABILIZATION

Since Ghana relies so much on cocoa for its income, its own internal and external policies as well as those of other major producing countries are of vital interest for study. At present there is no international agreement among the producing countries to limit export or to establish a minimum selling price. Each of the three major producing countries, Ghana, Brazil and Nigeria (in that order), uses its own marketing system.

Brazil has set up a minimum export price but there have been many reports of sales below the minimum price.<sup>1</sup> Besides, Brazil processes large proportion of the beans into cocoa butter and frequently sells it less than the equivalent cost of the beans from which it is made. Ghana and Nigeria have established single-seller markets, and while Brazil has a minimum export price, the latter have no such schemes.

However, while the big three are in competition with each other, they do not tend to hold back supplies to any great extent for fear that markets may be lost to their competitors. Brazil is the only exception; because of its strong economic ties with the United States and because much of its cocoa is sold on the American market, it has managed on occasions to with-hold supplies until prices improved from what it considered a low level.<sup>2</sup> This policy has resulted in the raising of prices through the activities of speculators. The price of cocoa which was severely depressed during the interval between mid-1955 and the first quarter of 1957 rose

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<sup>1</sup> See "New York Times", Section 3, June 19, 1960, p. F 7.

<sup>2</sup> Bahia Cocoa Trade Commission, Monthly Report, Brazil, April 30, 1955, pp. 1-2.

again by more than 20 per cent in the second quarter, this development has been attributed to Brazil's minimum price policy.<sup>3</sup>

Before we discuss the internal price policies and marketing arrangements of Ghana, we shall briefly attempt to indicate why there has never been an international scheme to stabilize prices of cocoa. Ghana, Brazil and the United Kingdom Territories have submitted proposals to the Food and Agricultural Organization of the United Nations which aimed at reducing fluctuations in the international prices of cocoa, and fluctuations in the consumption of chocolate products. In 1958, the F.A.O. set up a Working Party on Stabilization whose job was to study the possibility of an international agreement to reduce fluctuations in the prices of cocoa. Both Ghana and Brazil, and all the other producing countries participated in the discussions and at the Third Session of the F.A.O. Cocoa Study Group held in Hamburg in West Germany, May, 1958, the meeting decided against stabilization now. I consider it significant to quote the reasons given for deciding against stabilization; the reasons were:

'that no useful purpose would be served at this time by further discussion of the problem of stabilization involving international intervention, as most of the major consumer countries felt that international controls were neither practicable nor in the long-term interest of the producing and consuming countries. It was, however, understood that any government participating in the Study Group could raise the matter at any future time in considered opportune.'<sup>4</sup>

The consuming countries considered that any form of international controls, prices or quota scheme can only be injurious to the interests of the cocoa and chocolate industries of the world. Thus without any international stabilization scheme to reduce fluctuations in the prices of cocoa, each producing country is left to pursue its own price policy. In the following section, we shall discuss the Ghana Cocoa Marketing Board and its price policies.

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<sup>3</sup> See United Nations, Economic Bulletin for Latin America, Vol. 11, No.2, Santiago, Chile, October, 1957, p. 3.

<sup>4</sup> Quoted in New York Cocoa Exchange, Report of the Board of Managers, New York, October, 1958, p. 6.

THE COCOA MARKETING BOARD, SCOPE AND POWERS

In Ghana the sale abroad of export products is in the hands of statutory bodies, that is, the export market is concentrated in the hands of official statutory bodies who wield immense monopoly power. There is a marketing board for each of the export products, cocoa, coffee, groundnuts; but by far the most important of these marketing boards is the Cocoa Marketing Board which we shall concentrate our attention.

The powers of the Ghana Cocoa Marketing Board established in 1947 are statutorily defined in these terms:<sup>5</sup>

It shall be the duty of the Board to secure the most favourable arrangements for the purchase, export and selling of Ghana cocoa, and to assist in the development by all possible means of the cocoa industry of Ghana for the benefit and prosperity of the producers.

In 1951 the ordinance was amended to include the following provisions:-

1. to control and fix the price to be paid from time to time to Ghana producers for their cocoa and similarly to arrange in such manner as the Board shall think fit, to notify the producers of such prices;
2. to purchase cocoa and to do all things necessary for and in connection with the purchase from producers of Ghana cocoa;
3. to appoint licensed buying agents for the purchase of cocoa on behalf of the Board;
4. to grant, renew, or with-hold licences for each crop year to such agents, to impose conditions upon the grant of such licences, and to cancel or suspend any such licences for breach of any

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<sup>5</sup> Ghana Ordinance Number 16 of 1947



such conditions or other good cause.

In 1952 further amendments were made to the original ordinance of 1947 in which it was stipulated that :

1. no person shall purchase cocoa except -
  - (a) The Board, or a person authorized to purchase cocoa for sale to the Board; or
  - (b) A licensed buying agent or a person authorized to purchase for sale to such an agent; or
  - (c) A person acting upon the written instructions of the Board.
  
2. no person shall export any cocoa except -
  - (a) cocoa which is the property of the Board; or
  - (b) cocoa the export of which has been authorized.

The most important power of the Board, from the powers enumerated above, is its sole right to export, and to buy for export cocoa under its control, including all its by-products. As a corollary of this statutory monopoly power, the Board can and does fix prices payable to producers and the prescription of different grades<sup>6</sup> with different prices to be paid for these. The Board can define the exportable grades and grades falling below those grades cannot be exported.

The Board alone has the right to decide what is suitable for export, and therefore usually does not pay any attention or regard to the acceptability to overseas buyers in making its decision. Similarly, the Board alone decides the price and price differentials it offers for cocoa.

Local processors are not allowed to export cocoa, except by permission of the Board, and on such conditions as the Board may impose

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<sup>6</sup> From the point of view of the Board, there are three grades of cocoa, grade 1, grade 2 and sub-grade, which is of poor quality.

at its absolute discretion. Moreover, control is not confined to the export of processed products; the Board can lay down the terms and conditions on which the processors buy their raw material.

The Board can allocate its funds for purposes which it thinks are likely to benefit the producers. The Board has a large measure of discretion in determining what are the legitimate purposes. In Ghana the Minister of Commerce is empowered to issue directions to the Board for the disposal of its funds since the 1951 amendment.

The proposals to establish marketing boards in West Africa were published in two White Papers in 1944 and 1946 respectively by the British Government.<sup>7</sup> Both Papers emphasized the undesirable features of the pre-war marketing system of cocoa but they insisted on the necessity of avoiding short-term price fluctuations. The White Papers envisaged the establishment of export monopolies for cocoa in Ghana and Nigeria which would fix seasonally stable prices to producers and sell the produce to the best advantage. Their surplus funds would be used primarily for price stabilization and to a lesser extent for research, disease eradication and similar purposes. But the White Papers did not specify the period over which prices were to be stabilized; it was, however, implied that they were principally concerned with avoiding price fluctuations within a season or with stabilization over a few years of fluctuating world prices.

In effect, the explicit intention was that the Marketing Board would with-hold part of the proceeds from producers in times of high prices prevailing on the world market and pay out the accumulated funds in years of low prices, thus evening out peaks and troughs.

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<sup>7</sup> Report on Cocoa Control in West Africa 1939-1943 and Statement on Future Policy, Cmd. 6554, 1944.  
Statement on Future Marketing of West African Cocoa, Cmd. 6950, 1946.

PRICE POLICIES OF THE BOARD

Through its policy of paying the producers prices below those obtaining in the open-market, the Cocoa Marketing Board has been able to accumulate surpluses almost from the first year of its operation. The world price of cocoa has been relatively high since the war except in 1949-50, 1956 and 1957, but the reserves of the Board have increased tremendously. This is clearly seen in Table 41.

TABLE 41COCOA MARKETING BOARD'S SURPLUSES: 1949-57

<u>Year</u>	<u>£ thousand</u>
1949	31,226
1950	52,038
1951	63,366
1952	60,964
1953	65,877
1954	66,105
1955	63,049
1956	51,712
1957	49,766

Source: Ghana Cocoa Marketing Board, Chairman's Report, 1958, Accra, p. 16.

In the table above we give the surpluses so far accumulated by the Board in its operation; these figures do not include its operating costs, its £3.-4 million a year expenditures on cocoa industry reconstruction, scholarships, grants to local authorities, building secondary schools and other such activities. It will be seen from the table that the volume of surpluses accumulated depends on the world price of cocoa; in 1954 when the

world price was exceptionally high large surpluses were accumulated. But this is not to say that the Board has never made a trading loss; in 1948-49 season, the Board made a loss of £100,000, in 1956, £1.5 million and in 1957 the loss was £6.1 million. These were actually the lean years for cocoa.

Any time the Board had incurred trading losses, it has tended to shift the greater burden on to the producers. The Board's desire for the accumulation of surpluses is so overwhelming that when the Board first incurred a trading loss in the 1948-49 crop year, the price it paid to producers was reduced by 30% while the loss of reserves was only reduced by a fraction of 1%. The same policy was followed in the 1956 and 1957 trading losses. This policy has led to the charge that the Board is only interested in accumulating surpluses and not the stabilization of producers' incomes.

Moreover, there is reason to believe that by its price policies, the Board has rather brought about more violent destabilization in the incomes of producers; not only have the incomes of cocoa producers been reduced but they have fluctuated more violently over these years than if the crop had been paid for at full market value. This can be seen from Table 42.

TABLE 42

ACTUAL AND POTENTIAL MONEY INCOMES OF COCOA  
PRODUCERS, 1947-51.

Year	A C T U A L		P O T E N T I A L	
	£ million	As % of 1947 - 48	£ million	As % of 1947 - 48
1947 - 48	20.0	100	53.4	100
1948 - 49	46.4	232	47.1	83
1949 - 50	31.3	157	56.2	105
1950 - 51	47.3	237	78.6	147

Source: P. T. Baur, West African Trade, Table 24.

Actual incomes refer to producers' prices multiplied by tonnage purchased, and potential incomes refer to annual incomes plus annual surpluses. The figures are shown both in absolute terms and as percentage of 1947-48, the first year of the operation of the Board. It will be seen that the actual fluctuations were far greater than they would have been if the total net proceeds had been paid out; that is, the payment of world prices to cocoa producers would have secured a greater stability of producers' incomes at a much higher level.

SOME CRITICISMS OF THE PRICE POLICY OF THE BOARD<sup>8</sup>

Many people have criticised the price policies of the Board. P.T. Baur takes the Board to task in its price stabilization policy. He finds many ambiguities in the idea of stabilization and lists a number of these ambiguities and difficulties inherent in the price stabilization policy.

<sup>8</sup> These criticisms have been advanced in two works:-  
 (A) P.T. Baur and F.W. Paish, "Fluctuations in Incomes of Primary Producers", Economic Journal, Dec. 1952.  
 (B) P. T. Baur, West African Trade, Cambridge University Press, 1954.

Baur begins by arguing that 'the concept of stabilization may refer to prices, money incomes and real income'<sup>9</sup>; stabilization of any one of these may destabilize the others. He does not believe that fluctuations in prices cause or enhance fluctuations in producers' incomes; he states explicitly that price fluctuations caused by variations in supply serve to stabilize producers' incomes, and that their removal would destabilize incomes.

Ghana, being the largest single producer of cocoa (about one-third), during periods of short cocoa crop, prices will rise which will partly compensate farmers for the lower crop; therefore to stabilize prices in these conditions is to remove the compensating factor and to destabilize income.

Again Baur finds the concept of stabilization meaningless 'without reference to a specific period over which the accumulated forced savings and their subsequent disbursement balance'.<sup>10</sup> Because the future course of prices is uncertain, it can be argued that the larger the surpluses, the greater is the ability of the Board to weather the possible storm. In this case accumulation would be justified indefinitely.

Stabilization would tend to be meaningless without some reference to the market prices in relation between the price envisaged under stabilization and the open-market level. The lower the absolute level received by the producer, the larger can it be maintained.

Apart from the destabilization of producers' incomes, Baur and Paish also argue that the relative position of Ghana as the world's major single producer of cocoa is likely to be affected adversely through lack of incentive on the part of the producers. If a substantial proportion of

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<sup>9</sup> Baur, *ibid*, pp.271-272.

<sup>10</sup> Baur, *ibid*, p. 272.

the market value of the crop is with-held from producers, they argue, 'this cannot fail to influence the volume and direction of effort they put forward.<sup>11</sup>' This will tend to affect adversely the maintenance and extension of capacity and the volume of output, not only by affecting the producers already cultivating the crop, but also by making it less attractive to potential producers compared to other crops.

This argument assumes that producers are able to shift resources easily into the production of more economical crops. By assuring the producers a fixed price for the season, they are likely to have more incentive in cultivating the crop than when they did not know how much their crops will fetch them (see below). It is true that if the Board persists in keeping down the producers' prices when the world price is rising, conditions will be relatively less conducive to the maintenance and extension of capacity, with a resultant danger to the long-run competitive position of Ghana. But this has not been the experience so far; it is true that the percentage cut in producers' prices have been greater than warranted by the percentage drop in world prices, yet we cannot on this basis accuse the Board without considering the major role it is playing in the development process. The Board has become a major instrument of the government through which funds are accumulated for development; moreover, the price fixed for any season is made with the consent and approval of the producers themselves through their Farmers Council.

No one denies, not even the producers themselves, that the bulk of the development expenditure is borne by the cocoa farmers. But the cost is more than outweighed by the benefit they receive in return; rural housing at reasonable low costs, and electrification; spraying of cocoa trees against

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<sup>11</sup> Baur, ibid, p. 274.

pests and diseases; schools, water supplies and health facilities in the rural areas.

It is also not true that producers are likely to cut back cultivating cocoa because of the price policies of the Board. As a matter of fact, the area under cultivation and volume of capacity have increased in the postwar period.

Another criticism put forward against the Board is that by restricting the money incomes of the producers, this has tended to reduce the volume of imports entering into Ghana. This argument, however, is not conclusive. The analysis in Chapter Three showed the rapid increases in imports in the postwar years and that the main determinant of purchasing power in Ghana is generated by government expenditure. In the pre-war years when producers were at the mercy of the 'tricks of the market', and the price they received for their crops for a season was an unknown quantity, they found it precarious to buy on instalment plans, now with an assurance of the price they will receive next season, producers can buy with confidence.

It is also contended by some observers of the operation of the Board that although it is an important instrument of compulsory social saving, it has made almost impossible private saving and investment by important classes of producers. Baur, for instance, is not enthusiastic about this; he does not deny that 'the heavy accumulation of surpluses by the Board .....raises total savings' where 'the level of capital is very low'. But he maintains that the Board reduces private saving and in view of this result entails 'disadvantages beyond the obvious and substantial adverse effect on the level of supply and an individual incentive to produce'. It retards the growth of the personal saving habit in countries where this habit is just getting established, as shown for example by the 'great



increase and improvement of building, especially house-building for Africans' in Ghana. To Baur, it seems paradoxical to pay producers less than half the market price and then send around teams of experts to encourage increased production.

Baur also believes that the government is likely to use these savings in less productive fashion than would occur if they were left in private hands. He admits the importance of 'basic services and subsidization of research' but feels that apart from these functions, the individual producers are better able to assess the relative merits of alternative uses of funds than the government. If compulsory saving is ever desirable at all, it can be achieved in less discriminatory fashion through a budget surplus.

It is a little hard to disentangle Baur's appraisal of the Cocoa Marketing Board from his general dislike of government intervention and his feeling that 'economic development is a natural process best left to marginal decisions in the market'.<sup>12</sup> Experience in Ghana does not suggest that individual producers are likely to make decisions about the use of savings more conducive to acceleration of growth than those made by an informed and responsible government. If the political and administrative situation in Ghana is such that financial resources for development can be obtained through the Marketing Board and not in any other way, the case for it would seem to be a good deal stronger than Baur indicates. The question cannot be answered in terms of general theory but must be appraised in terms of the conditions prevailing in Ghana.

Moreover, one can question the assumption of Baur that the government is likely to misuse the savings; it is a little difficult to imagine illiterate peasants making use of savings in a more productive way

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<sup>12</sup> P.T. Baur, Economic Analysis and Policy in Underdeveloped Countries, Durham, N.C., 1957, Chapter XI.

than a responsible government when one considers that the proverbial hiding of money in the garden or under the bed is a common practice in Ghana. From my own experience, because of their economic ignorance, the best way to help the peasants is to with-hold part of their profits from them and to channel developments into the rural areas.

The argument that the government can raise its funds for development through a budget surplus overlooks the fact that no satisfactory method of collecting income tax from peasants scattered throughout the bush has been devised. It is therefore easier to tax the producers through a policy of with-holding some part of their crop proceeds from them to be used for general development purposes.

The operation of the Board's price policies has also been criticised on the ground that during the years when the incomes of producers have been so drastically restricted, prices of the imports on which they spend a large proportion of their incomes have been rising sharply. The terms of trade of the producers, it is claimed, have therefore been depressed, not only relatively to what they would have been and to those enjoyed by producers of similar product in other countries, but often absolutely.

Any detailed information on this charge is difficult because while indices of producer prices can be computed easily, the corresponding information on retail prices of imported merchandise is not available. There are not enough statistics to verify this criticism, therefore we cannot be certain whether this is valid or not.

SOME ARGUMENTS IN SUPPORT OF PRICE POLICY

The purpose of establishing the Cocoa Marketing Board was the necessity for price stabilization. But as we have indicated above, the idea of stabilization is ambiguous in so far as it may refer to prices, money incomes, or real incomes; stabilization of any of these may destabilize the others.

We have noted above that by its price policies, the Board has brought about a destabilization of the incomes of the producers, and also that there is a tendency on the part of the Board to set too low a price vis a vis the open-market price and to prolong the retention from producers of perhaps an excessively large part of the proceeds of their crop. This may have a depressing effect on the long-run trend of output by reducing the incentive to extend capacity; but we also noted that this has not had any appreciable effect so far.

Against this adverse effect of price being low, we also noted the positive implication of having ready access to funds for development purposes, that the operation of the Board's price policies is the only way in present Ghana to obtain the necessary savings for economic development. Thus some observers claim this compulsory saving as an argument for the constriction of incomes of producers.

Fundamentally, we may question whether the proper aim of stabilization measures can be described solely as that of stabilizing income rather than prices. This is the Baur-Paish view:

'Although this is rarely stated explicitly the aim of advocates of stabilization measures is clearly the removal of random fluctuations about the trend of incomes.'<sup>13</sup>

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<sup>13</sup> Baur and Paish, op. cit., p. 766.

This may not be true up to a point, since incomes would fluctuate less if prices are stabilized. But the crucial distinction between different kinds of stabilization measures is not this so much as the issue of internal or domestic as compared with external or foreign income and price stabilization. In the domestic economy the case for stable price is far stronger than stability of income in foreign transactions. The Ghana scheme was designed only to provide a reasonably stable price basis not necessarily fixed for a number of years but so arranged as to avoid short-term fluctuations.

The draw-back of the pre-war primary product market was that world prices fluctuated widely not only from year to year but also from day to day. The effects of this instability were felt particularly severely in peasant economies, since these fluctuations were fully reflected in the prices received by producers. In Ghana this phenomenon was the sole cause for peasant indebtedness in the pre-war years, and the consequent alienation of his land. The marketing of crops by the farmer was full of risk and uncertainty, and his attention was in consequence as much given to speculation as to farming. It is this feature of pre-war markets that statutory marketing boards have eradicated.

The producer price is now fixed f.o.b. for a year at a time, its value at the main buying stations, with a flat-rate reduction for transport costs, published. Shippers' and brokers' margins are fixed by law; consequently, the farmer now knows precisely how much he should get for each load (60 lbs) of his crop, and he knows that his domestic price will be operative for the year whatever the level of the world price. This state of knowledge is a great contrast with that obtaining before the war, when the farmer never knew the level of the price from one day to the next and,

worse still, his sole source of information about its level was the broker. The short-period speculative element in crop marketing has been completely eradicated, and, the farmer now has a reasonable basis for his farming and cropping policy.

To the charge that the Cocoa Marketing Board has been solely preoccupied with the accumulation of surplus, it is easy to see that steady accumulation has been inevitable, almost from the Board's inception. With a strongly rising commodity prices in the postwar period, any formula for producer price stability inevitably lags behind actual world prices and leads to surpluses, until the trend of prices turns downwards. Given that surpluses have been inevitable, one could perhaps ask whether they have not been too excessive. This depends upon one's assessment of the price stabilization commitment. If this period is followed by a slump, the Board's reserves will be needed not so much in order to maintain the internal price but in order to pay in sterling for imports, for the demand will be constant or even rising while receipts from exports fall.

The Board's reserves are also being used for the long-run improvement of the cocoa industry in other ways: the financing of the swollen-shoot<sup>14</sup> campaign, grants for health services in the villages, scholarships, etc. Such policies of building up financial reserves and the ploughing back of profits, are more to be commended than the immediate distribution of dividends. This is a choice not often made in farming communities and least of all in peasant communities in Ghana, where as Baur and Paish agree, "small producers are unlikely to have the restraint and foresight to set aside in

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<sup>14</sup> Swollen-shoot consists of a group of virus disease which usually becomes evident in the swelling of young shoot or branches of the cocoa tree. The disease can kill trees in as short a period of two years, and has caused a sharp decline in production in the areas most affected. Serious damage has also been caused by such diseases as black pod and witches broom and by capsid bugs.

good times sufficient reserves to cushion the effects of worse ones, or, even if they have, may be barred from doing so by social customs and obligations."<sup>15</sup>

Table 43 gives a breakdown of the Board's activity and how the money was divided. The unusually large amount of export duty is noticeable as well as the stable prices paid to producers in the last six years. The Board's profits, while large at the beginning of the Board's operation appears to be diminishing as export duty and producers' price take a large share of the world price. One of the reasons advanced to support the price policies of the Board is the need to combat inflation. Aside from the short-run fluctuations in producers' income, the country is likely to experience strong inflationary pressure as the development process gains momentum. Therefore the Board is required to combat this inflationary force by preventing a rise in money incomes.

This argument is criticised on the grounds that there was no suggestion of this type of function in the White Papers establishing the Board; that in any case, the control of anti-inflation policy is a function of the monetary authorities, and not of a statutory body intended to safeguard the interest of the producers. If the tax system operates efficiently and if there is in existence a monetary authority with powers to discharge broad economic responsibilities, this criticism would be valid.

The Marketing Board can be defended on the grounds that its establishment has lessened the degree of exploitation of producers by intermediaries, and has enabled farmers to borrow on more favourable terms from the Board to maintain and improve their farms. Before the Board came into

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<sup>15</sup> Baur and Paish, op. cit., p. 766.

TABLE 43

THE GHANA COCOA MARKETING BOARD - HOW THE MONEY WAS DIVIDED£ PER TON1947 - 1955

Year	Board's Profit or Loss	Expenses	Cocoa Export Duty	Paid to Producers
1947	£115. 7. 3d.	£ 9. 6. 11d.	£ 1. 16. 0d.	£74. 13. 4d.
1948	-£ 2. 13. 8d.	£14. 7. 1d.	£ 6. 2. 7d.	£121. 6. 8d.
1949	£ 68. 2. 6d.	£11. 19. 3d.	£13. 16. 9d.	£84. 0. 0d.
1950	£72. 10. 9d.	£14. 2. 3d.	£51. 1. 5d.	£130.13. 4d.
1951	£ 9. 5. 8d.	£16. 3. 6d.	£70. 0. 2d.	£149. 6. 8d.
1952	£18. 13. 6d.	£17. 7. 8d.	£64. 15. 0d.	£130.10.10d.
1953	£43. 13. 5d.	£17. 3. 7d.	£163. 9. 2d.	£134. 8. 0d.
1954	£26. 14. 5d.	£17. 11. 4d.	£175.15. 5d.	£135. 0. 0d.
1955	-£ 7. 13. 7d.	£19. 1. 4d.	£61. 16. 6d.	£148. 9. 2d.

Source : The Ghana Cocoa Marketing Board,  
Ninth Annual Report and Accounts, Accra, 1957, p. 32.

existence, farmers sold their crops to the commercial firms through a maze of intermediaries, and often borrowed from these same intermediaries at exorbitant interests.

The price-fixing policies of the Board may also provide incentive to higher quality. By widening the difference between the prices of different grades of cocoa, the Board has stimulated an improvement in quality and has penalized low quality.

Although the Cocoa Marketing Board is an export monopoly, the Board has not used this advantage; its policy has been defensive rather than aggressive. For one thing, Ghana's average of 30 per cent share of the world market is not large enough for her to use its monopoly, her policy has been to try to achieve a position of greater stability in an unstable market. For another, the failures of the pre-war controls of sugar, rubber, etc. were at the back of the minds of the authors of the Cocoa Marketing Board, and hence no attempt has been made by Ghana to form any sort of international "association" or cartel in the sale of cocoa.

While the various restriction schemes for raw materials have usually met with early success in securing better prices for producers, in most cases this has been short-lived. The Stevenson Plan, introduced in 1922 by the British Government to restrict the output of crude rubber in Malaya, and which failed because of increased competition from the Netherlands Indies (Indonesia) is now history. To be able to use its monopoly power, Ghana would have to :

- (1) associate itself with another major producing country, preferably Brazil, in order to control a sizeable volume of world production, (say 60 - 70 per cent); and



- (2) to make certain that restriction would not result in technical research to find satisfactory substitutes.

The first condition is not practicable in the foreseeable future; even if it were possible, the "association" would not be able to restrict permanently the total supply, owing to the possible growth of production in other countries. High profits accruing to the "association" would certainly attract other countries which have similar soil and climatic conditions to undertake the production of cocoa; a case in point is the attempt of Brazil to restrict supply of coffee and hence to raise the price which has met with increased production in Africa and elsewhere. The second condition - that of substitutes - is a big threat to cocoa producers as we have seen in Chapter Two. For all these reasons the Cocoa Marketing Board has not made any effort to any of the major producing countries to form a cartel in the supply of cocoa.

Instead, the Board leaves the international price to be determined by market forces, getting as much as the market will bring. The Board is aware that high prices for cocoa are a threat to cocoa consumption and is likely to maintain this policy for some time. As Professor Hicks once remarked, "it may well be that the best of all monopoly profits is a quiet life".

Whether the Marketing Board will continue to adopt this laissez-faire policy in the face of the post-war developments in the demand for cocoa, is a question mark. I feel, however, that an international scheme to stabilize cocoa prices is inevitable if the major producing countries, especially Ghana, are to continue with their present pace of development; but this move would have to be set against the possible shift in the demand for cocoa by the high-income countries.

CONCLUSIONS

Our analysis so far has shown that Ghana's economy is prone to instability in terms of export earnings, value and volume of exports, as well as imports. In a way, Ghana's economy is a relatively stable economy when it is examined in terms of price fluctuations or purchasing power fluctuations. The Cocoa Marketing Board in its price policies is one element of source of stability.

The stability does not extend to the value of exports, which is dominated by wide fluctuations in the price of cocoa. As we have mentioned before, this price swung from £566 a ton c.i.f. in July 1954 to £168 a ton in February 1957, and was back again to £318 a ton in December 1957. However, the F.A.O. meeting has decided against an international agreement to stabilize the price of cocoa.

Other external prices are affected by the level of employment in the outside world. The average price of imports fell from 1951 to 1955, and has risen up to 1957 to 4 per cent. The average price of exports other than cocoa rose 12 per cent between 1955 and 1957, but because of the slackening of economic activity in the United Kingdom and the recession in the United States, the export industries of Ghana, except gold and cocoa, were depressed in the following year.<sup>1</sup>

Internal stability is maintained partly by the stabilizing of the price paid to the farmers for cocoa, and partly by the trade unions responding to the policy of keeping the cost of living down. In December, 1957, the index of retail prices had risen since 1953 by only 8 per cent in Accra, compared with 9 per cent in Western Germany, 13 per cent in France,

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<sup>1</sup> Economic Survey, 1957, op. cit., p. 6.

and 18 per cent in the United Kingdom.<sup>2</sup>

There are two destabilizing factors apart from minor fluctuations in exports other than cocoa. One is the variations in the output of cocoa. Thus, the main crop produced 264,000 tons in 1956-57, but only 195,000 in 1957-58.<sup>3</sup> At a price of seventy-two shillings a load of 60 lbs. this makes a difference of £9.5 million in farmers' incomes. And as the Cocoa Marketing Board usually receives more for a small crop than for a large one and could therefore afford to pay the farmers more, this wide fluctuation in the farmers' incomes is unsatisfactory in two ways.

The only obstacle to stabilizing cocoa farmers' receipts instead of the price of cocoa is the difficulty of forecasting what the crop will be. The average crop is about 230,000 tons. One could provide that for every 10,000 tons by which the August (main crop season) forecast differs from 230,000 tons, the farmers will be paid four shillings a load more if the forecast is below 230,000 tons, or four shillings a load less if the forecast is above 230,000 tons. Unfortunately, the crop forecasts are much too unreliable to bear this weight. Alternatively, starting with a smaller initial payment, the Cocoa Marketing Board could make a retrospective payment at the end of March (the minor crop season) which would vary inversely with the size of the crop, but, given the existing system of distributing cocoa, there is no means of ensuring that these payments would reach the farmer who was entitled to them.

The other possible destabilizing factor is government expenditure on development. This, as we have seen, rose steadily up to 1955 (First Development Plan), but was then cut back (Consolidation Plan). This had a marked effect on the economy, especially in the building industry.

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<sup>2</sup> Economic Survey, 1957, *ibid*, p. 6.

<sup>3</sup> Economic Survey, 1957, *ibid*.

Unless government expenditures are kept at a high level (say at £20 million a year as we have seen the government intends to do) income will fall.

We have shown that imports have been rising steadily in the post-war years due to the rising levels of income. The result of this increase in imports, coupled with the absence of import competing goods, has been the pressure on the balance of payments. A rapid development of the manufacturing industry and of agriculture in which Ghana has comparative advantage, both for home consumption and for exports, are what the Ghana economy now needs most. Expenditure on development during the past eight years has provided a very good framework of public services, as well as a rapidly expanding market. Further improvement of public services will follow under the Second Development Plan, but the major emphasis of the next few years must be on introducing new industries and new crops, on expanding old ones by increasing productivity, and on encouraging private and public capital formation in the basic productive industries.

Indeed, in the absence of an international agreement to stabilize the price of cocoa and bearing in mind the developments taking place in the industrial countries with respect to their demand for cocoa, the only course open to Ghana is to diversify its economy. In the next decade, cocoa will cease to play an active role in the economy, its role will be passive. Often, as we have seen, high cocoa prices reduce the rate of consumption, while low prices may stimulate demand, and while demand prospects are subject to the vagaries of changing conditions, such as trends in the business cycle which influences the buying power in the consuming countries, it is important that the economy of Ghana becomes less dependent on cocoa for revenue.

If Ghana is to emerge from its relatively underdeveloped state, further capital expenditures on social and public services will have to be restricted to projects ancillary to those yielding a return in real resources; private capital formation would have to be stepped up. It is against this economic background that the financial implications of the Volta River Project must be viewed.

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