

Structural Transformation and Inclusive Growth in Ghana

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Outline

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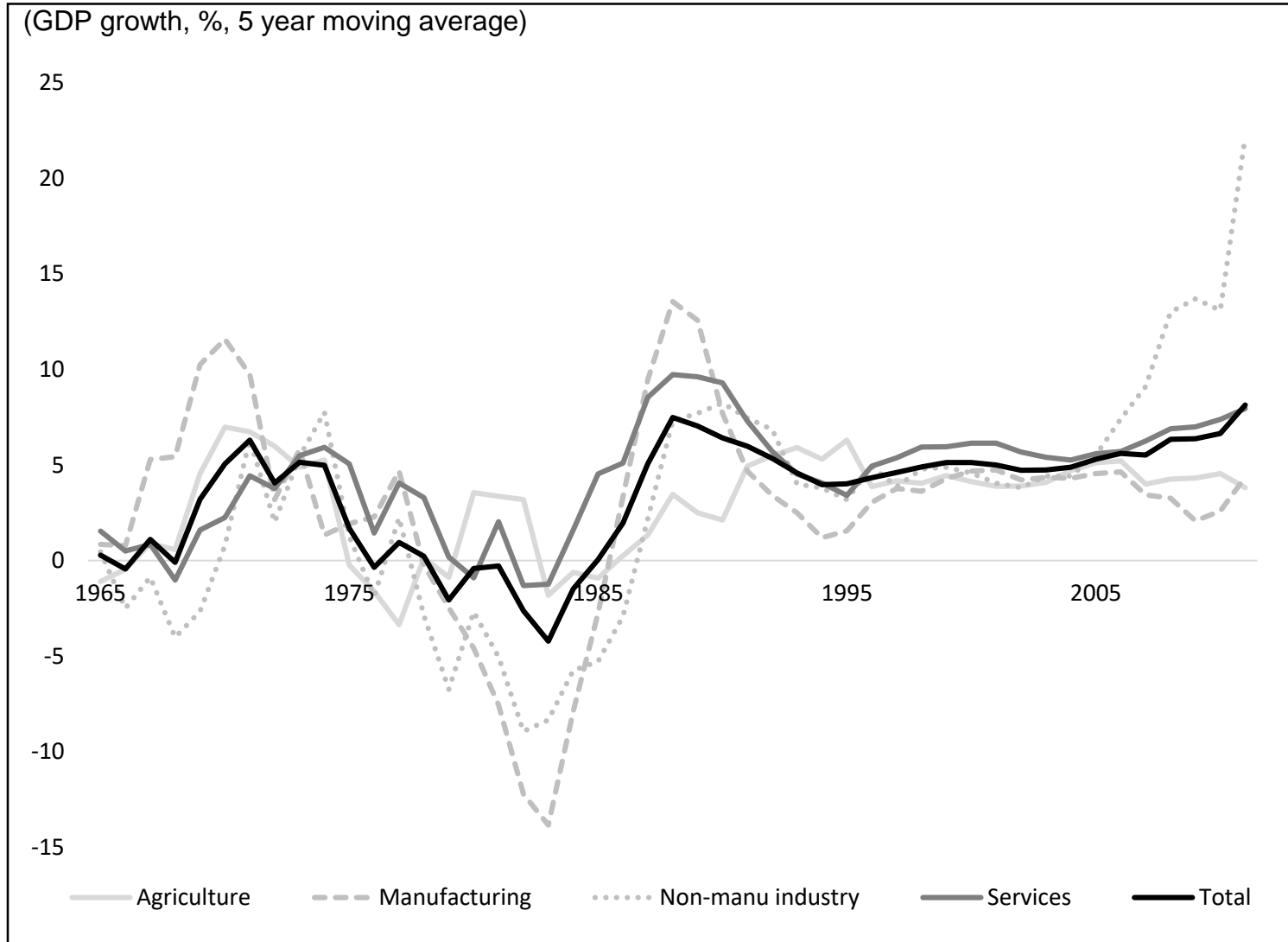
Economic History of Ghana

- In the 13th century, Ghana(then the Gold Coast) was drawn into long distance trade, serving as a market for raw materials and finished products for the European traders (La Verle, 1994).
- Cocoa was introduced to Ghana in 1878 and Ghana quickly became the second largest exporter of cocoa in the world.
- By the 20th century, the developmental outlook for the country was remarkable although there was economic stagnation for two decades from 1926- 1945.
- Macroeconomic challenges after independence further distorted the developmental prospects of the country.
 - The economy was characterised by large budget deficits and foreign exchange controls
 - issuance of treasury bills to raise funds to finance the budget deficits.



Trends in Structural Transformation

Trends in growth and sectoral GDP Shares

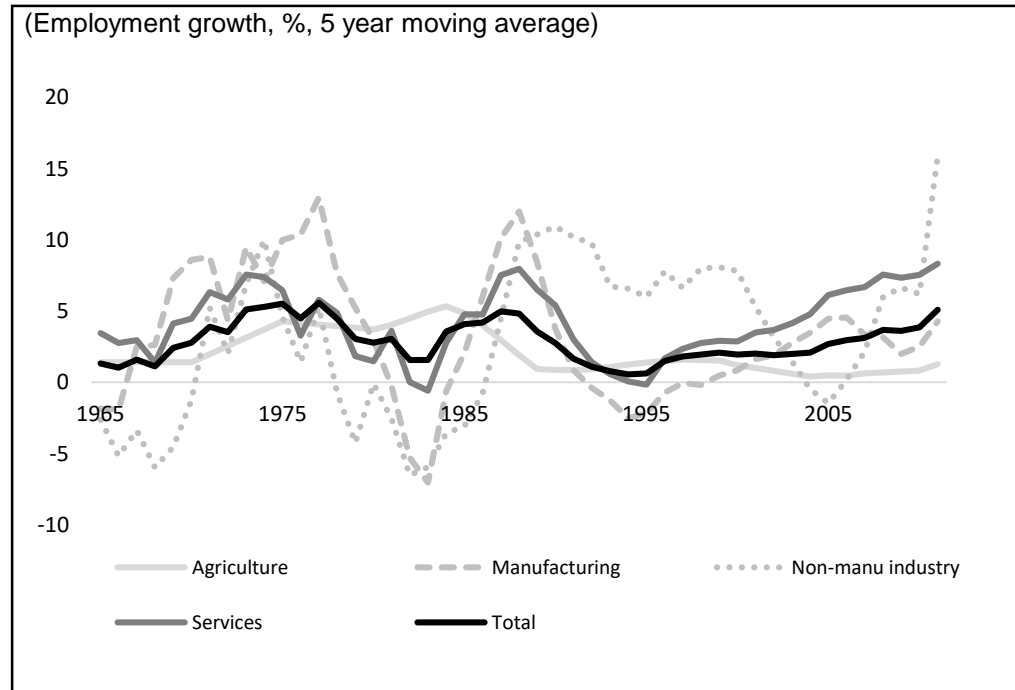


- GDP growth and growth in all major sectors trended downward between the early 1970s and mid-1980s
- Coincided with political instability, high inflation; weak institutions which distorted market incentives due to high controls
- The most affected sector was manufacturing which recorded double-digit negative growth rates in the early 1980s.
- After responding positively to SAPs, economic growth declined again till 1995.
- Significant change in sectoral contribution after the mid-1990s.

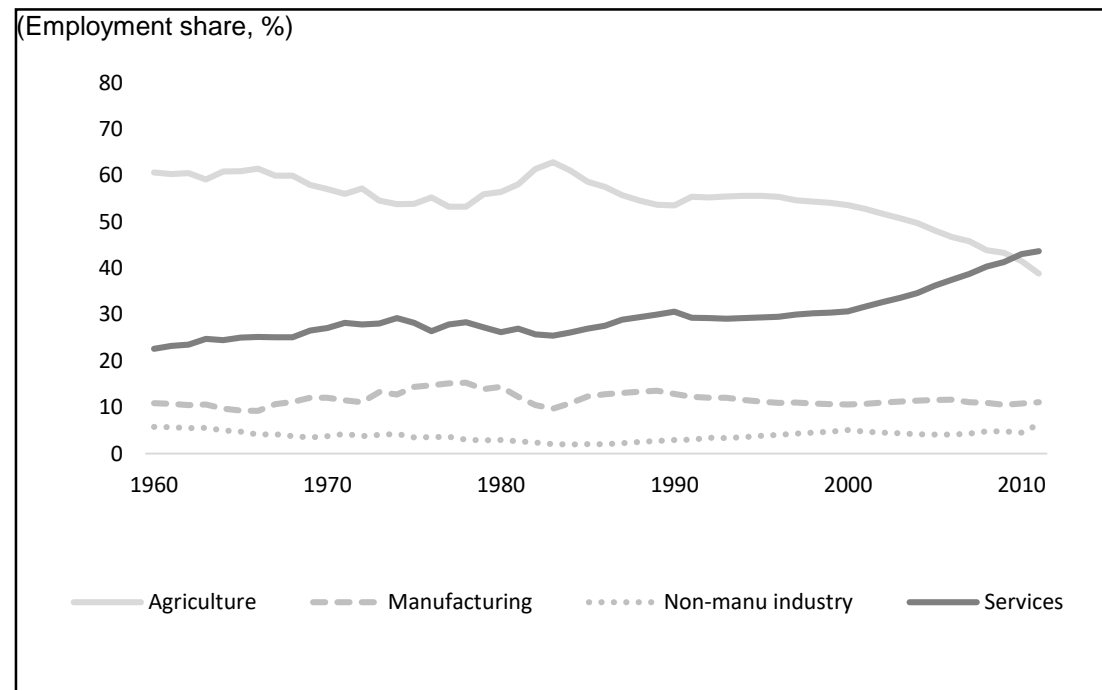


Employment Growth and Productivity

Employment Growth



Employment Shares

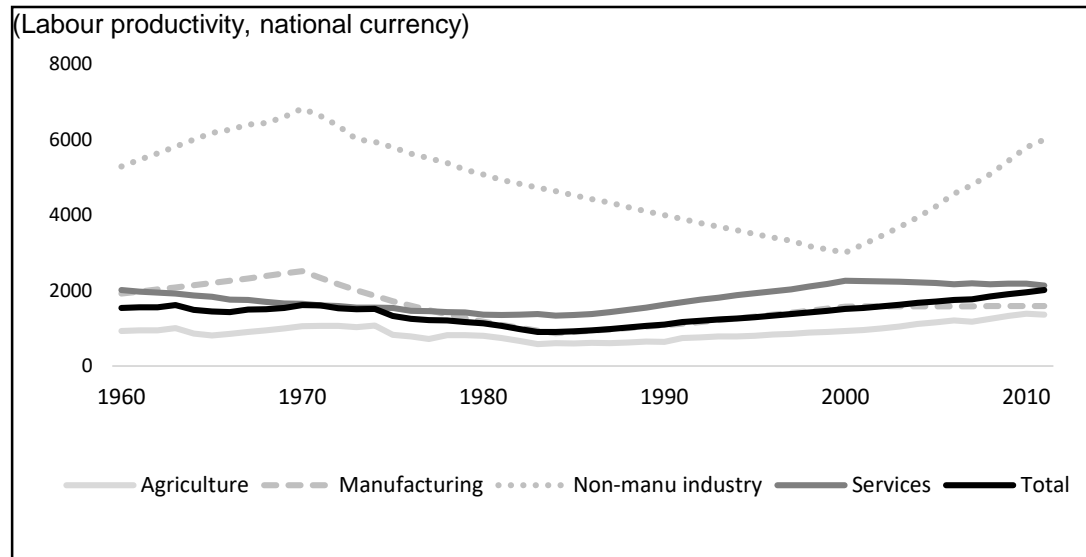


- Changing economic structure reflected in employment growth and sectoral employment shares
- Agricultural sector's share in total employment declined from 60% in 1960 to 39% in 2011; services doubled and manufacturing remained stagnant.
- The trends suggest that labour resources are being reallocated from agriculture to the services sector; a leapfrogging of the manufacturing sector.

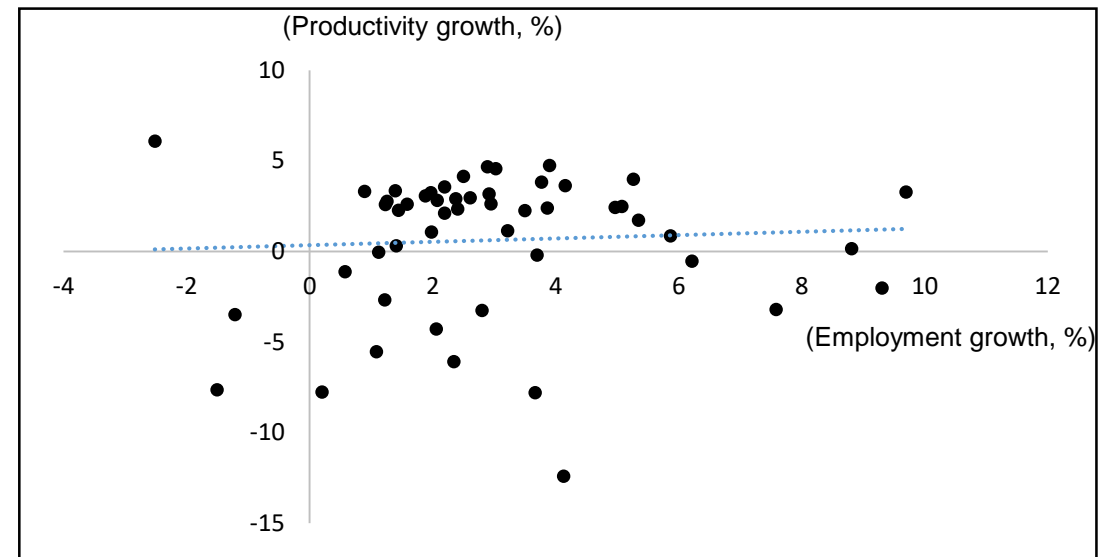


Labour Productivity and Employment Growth

Labour Productivity



Productivity and Employment Growth



- Labour productivity is lowest in agricultural sector but highest in non-manufacturing industry
- However, employment share for non-manufacturing industry is lowest; not able to absorb labour from agriculture because high skill requirements restricts labour entry.
- Excess labour from agriculture absorbed into low productivity and informal activities in the services sector
- Labour reallocation from agriculture into services may be 'nothing more than churning' (World Bank, 2013)

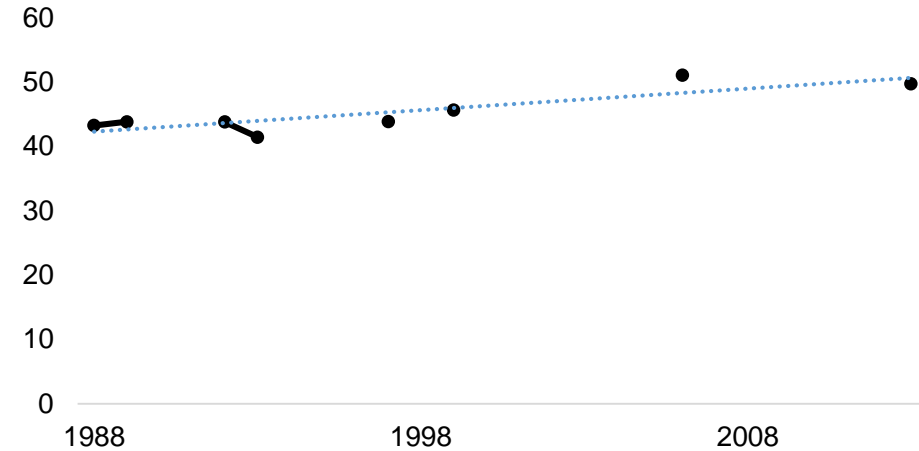


Trends in Poverty and Inequality

(Poverty rate at \$1.9, %)



(Gini, gross)



- Trends in poverty rates in Ghana have largely reflected the sustained high economic growth achieved in the last three decades
 - Reduction in poverty rates between 1991 and 2012; increased economic inequality in the same period ; growth benefited rich households more than poor households.
- Ghana's growth-poverty elasticity has declined from 0.17 in 2005/06 - 2012/13 period to 0.07 in 2012/13 - 2016/17 period.
 - The level of poverty reduction associated with a percentage increase in growth has declined, implying that economic growth is becoming much less pro-poor.



Policies used to Shape ST

- Shortly after independence, Nkrumah's government pursued a policy of import substitution industrialization.
 - aim was to change the structure of the economy through agricultural mechanization and industrialization
- Policies after Nkrumah's regime focused on: import substitution, restrictive foreign exchange regime, quantitative restrictions on imports and price controls.
- Continued years of economic decline led to the adoption of the SAPs in the early 1980s



- The SAP came with restrictions on public sector employment and expenditure on wages
 - This pushed a substantial proportion of the Ghanaian labour force into the informal sector.
- After attaining a fairly stable macroeconomic environment, policies were pursued to create incentives for increased private sector contribution to growth
 - reduced corporate tax rates for the manufacturing, agricultural and export sectors
 - development of infrastructure was intensified while the tax system was further strengthened
- Trade reforms emphasized on exchange rate liberalization.



- GPRS I & II (2003 -2005 & 2006-2009)
 - aimed at transforming the economy to achieve growth, accelerate poverty reduction and the protection of the vulnerable and excluded
 - Policies emphasised private sector-led industrial production through the application of science and technology
- GSGDA I & II (2010-2013 & 2014-2017)
 - GSGDA focused on the development of infrastructure as well as the development of salt and petro-chemical based industries to support oil and gas production.
- Current goals of industrialisation have been espoused through flagship policies such as the 'one district, one factory' and 'one village one dam'



The Future Trajectory of ST-Inequality and Inclusive growth

- The future trajectory of the structural transformation – inequality – inclusive growth nexus is one that is difficult to predict.
 - due to the evolving nature of political settlements and its implication for the deals environment
- Future Trajectory could be in two forms: medium and long term
- Medium term: relationship is expected to be inelastic based on:
 - widespread political patronage although political settlements is becoming more competitive in Ghana.
 - the deals space is still dominated by elites so that growth favours sectors that are not too inclusive – particularly the extractive sectors.
 - low employment – manufacturing sector elasticity as a result of the generally low human capital associated with the sectors that have the largest labour force.



The Future Trajectory of ST-Inequality and Inclusive growth

- In the long term one expects changes to favour a trajectory where structural transformation impacts more positively on inclusive growth and as a result reduce inequality.
 - Current educational policies of the government has the potential to increase the average human capital of the populace as a whole and as well, increase the emphasis on technical and vocational skills.
 - Likely reduce the rigidities associated with vertical movement along the skill ladder of the labour force.
- Power of the growing middle class is bound to put increasing pressure on political elite and force political settlements to become more competitive.
(Osei et al (2018))
 - together with increasing oil resource this will eventually engender investments in sectors that are pro-inclusive growth.



Summary and Conclusion

- The structure of the Ghanaian economy has changed, with services now the dominant sector.
- However we argue that this changing structure is not transformative
 - Whereas the changing structure has been associated with changing employment shares from agriculture to the services sector, we note that the productivity differentials between these two sectors have not been very large.
- The incidence of poverty has declined over the years however, inequality has persisted.
 - Employment growth has lagged behind economic growth
 - due to the nature of structural change that is occurring, and the low skill set of the labour force which makes labour supply inelastic.
- We conclude by noting that there is potential for structural transformation in Ghana to be more impactful on inclusive growth, particularly in the long term.
 - However, this potential transformation in the long run can be compromised by the nature of competitive elections in Ghana.



THANK YOU

