Ghana in 1966: the same IMF method

by Linda de Hoyos

The favorite watchwords of the International Monetary Fund—"free enterprise," "fiscal discipline," "privatization"—are nothing new, but have been the consistent themes of the Fund, and with the same consistently poor results, for nearly three decades. Ghana is a case in point, as the 1987 book by Eboe Hutchful, *The IMF and Ghana: The Confidential Record,* shows.

In 1957, Kwame Nkrumah succeeded in winning independence for Ghana from Great Britain. Among the dignitaries invited to the independence celebration was Dr. Martin Luther King. Hopeful of western help, especially from the United States, Nkrumah envisioned the creation of a politically united Africa organized around a program to bring Africa's population up to European living standards within 20 years. Aid from the West, however, was not forthcoming. This, combined with falling prices for cocoa, Ghana's main export crop, propelled Nkrumah to attempt to gain aid from the Soviet Union. He was partially successful, with the U.S.S.R. supplying Ghana with a nuclear test reactor, and loans for several industrial projects. Nevertheless, by the mid-1960s, the Ghana economy was floundering.

At this point, the IMF moved in—and as Hutchful demonstrates—at the point that Nkrumah was overthrown in 1966 by a U.S.-British-backed military coup, he was locked in battle with the IMF.

State sector was dismantled

An IMF mission came to Ghana in May of 1965, followed by a World Bank mission in September. The IMF demand was that Ghana must "privatize," dismantle its state sector, cut government spending. The World Bank argued that Ghana, like most African countries, was a high risk for foreign investment, and that the IMF measures were necessary assurances for foreign investors, who, the Bank argued, were the engine of economic development. The *Ghana Economic Survey,* however, reported that Nkrumah's government was "not prepared to subject policies to the financial discipline recommended by the IMF and World Bank missions."

Once Nkrumah was out in 1966, the IMF moved in with its "stabilization program." Government expenditures were cut and the size of the budget deficit decreased. Interest rates were raised to 4.5-7%. Commercial lending was cut by 25-33%. In June 1967, the national currency, the cedi, was devalued by 30%. Subsidies to the state sector were terminated. All capital investment privileges were removed. Duties were lifted on imports, and Ghana was told it had to change to export-oriented production. In order to block any loans from the Soviet bloc, a rule was established that no loans could be taken by the government without Fund approval. "Ghana was obliged to remain in close contact with the Fund and keep the Fund informed of developments in exchange, trade, monetary credit, and fiscal situation," Hutchful reports.

Major projects that had been launched under Nkrumah were abandoned under IMF orders. A state concrete panel factory, even though its construction had been fully completed, was abandoned. Construction of a gold-refining factory was halted. A ferro-manganese project was left to rust. All of the huge state farms were totally abandoned, the equipment left in the fields.

Nkrumah had launched a program to build cocoa storage silos, to alleviate Ghana's total reliance on the world market price for cocoa. Under IMF orders, the silos were torn down—so that Ghana would have to release all its cocoa in a given year, no matter the price.

In 1968, the London-Rhodesian Mining Co. (Lonrho) took control of the Ashanti gold mines in Ghana, in "the most important, single takeover of the company's history," with the Ghana gold company as a junior partner.

The results of the IMF takeover of Ghana for the population and the economy were predictable. The real income index dropped as follows:

1960: 100
1964: 74
1965: 59
1966: 56
1967: 64
1968: 65

Public sector investment fell by 17% in 1966, by 20% in 1967, and by 3.5% in 1968. Real income per capita, which stood at 142 in 1965, was 135 in 1969. Almost 10% of the working labor force lost their jobs. By 1968, employment in the private commercial sector had dropped by 50%. The share of labor in value-added manufactures fell from 30.4% in 1962 to 20.6% in 1970.

Meanwhile, under the new political order of the government, the defense budget was increased by 100%, although overall budget expenditures from 1966-69 increased by only 10%. In the same three-year period, the budget allocation for agriculture was slashed by 35%. The food index climbed from 167 in 1967 to 200 in 1969 to 236 in 1971. The population growth rate, meanwhile, was 3%.

Despite this stripping-down of the Ghanaian economy, under the IMF's rule, Ghana's debt stock increased by 89.7 million cedis by 1969.

However, the promised foreign investment was no more forthcoming than under Nkrumah. As Hutchful concludes: "Thus while Fund expenditure ceilings and guidelines were strictly enforced, the World Bank's 'development program' never left the drawing boards."