Ghana undergoes the IMF's vacuum cleaner effect

by Linda de Hoyos

On March 10, a Reuters wire reported that Ghana, the nation of 14.6 million people in western Africa, had won the praise of members of the General Agreement on Tariffs and Trade (GATT) for its "far-reaching economic reforms." "Ghana's impressive achievements to date in economic reform, with trade and exchange liberalization at the center . . . strengthened its integration in the world economy and improved its economic performance," said GATT chairman council B.K. Zutshi.

Specifically, Ghana has been praised for raising its export volume 10% annually since it instituted an "Economic Recovery Program" under the aegis of the International Monetary Fund in 1983, and for lowering its external debt as a percentage of Gross National Product from 64% to 53% in 1990.

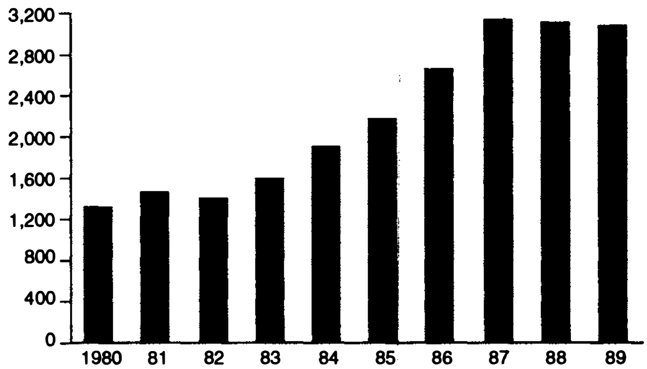
Indeed, as the accompanying figures show, from the standpoint of the interests of the Anglo-American financial nexus now dominating the world economy, Ghana has performed admirably. The result, however, has been the exacerbated misery of its population.

A survey in the June 1991 issue of *Africa Recovery* tells the story. In 1981, when the Provisional National Defense Council of Lt. Jerry Rawlings took over the Ghana government, Ghana had the biggest trade and current account deficits in its history. Per capita income had fallen 30% between 1970 and 1982. In 1983, the Ghana government instituted the IMF's Economic Recovery Program, whose most prominent feature was the drastic devaluation of Ghanese currency, the cedi. From October 1983 to January 1986, the cedi was devalued by 96.9% in dollar terms. By April 1991, the cedi had depreciated further to c360 to the dollar (**Figure 3**).

The purpose of such devaluation, as the IMF explains to government officials in all underdeveloped countries, is to enable the country to export more in order to earn the foreign exchange to pay its foreign debt.

On the debt question, although Ghana managed to pay debt, from 1981 to 1989, its total debt stocks also doubled (**Figure 1**). And, although the devaluations did succeed in increasing exports often by over 50% for some commodities, the ratio of debt service to total export earnings, rose by 375% at the same time (**Figure 2**)!

FIGURE 1
Total foreign debt
(billions of dollars)



Source: World Bank.

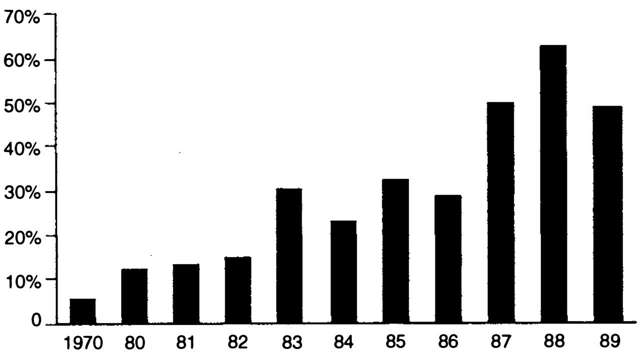
What had happened? **Figure 4** tells the story, the same story repeated in so many developing countries around the world over the last decade. The devaluations enabled exports to increase in volume, and in their value relative to Ghana's economy as a whole, exports had increased 50-fold! Aside from the massive increase in exports of gold and cocoa, the exports of "non-traditional exports," such as pineapples, kolanuts, and semi-processed goods, also rose.

By the end of 1989, Ghana was shipping out in economic value 50 times more than it had in 1981—a 5,000% increase. But the value of these exports in dollar terms had actually *decreased* by 10!

This was caused by the accelerating fall in the prices of Ghana's primary export commodities—gold, cocoa, and timber. Between 1986-89, cocoa prices fell by 48%. The World Bank estimated that Ghana's terms of trade deteriorated by 30% alone in 1987-90.

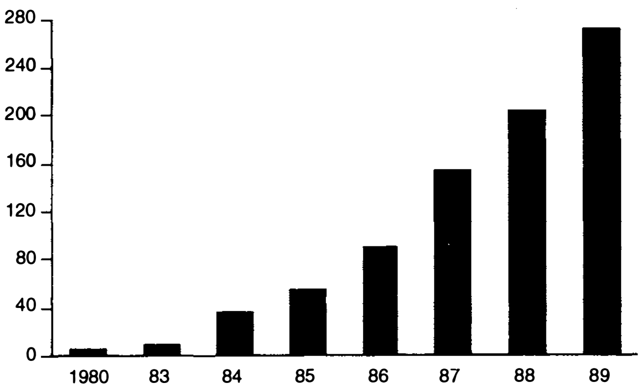
At the same time, imports also rose, and Ghana's trade deficit deepened from $60.6 million in 1983 to $334 million in 1989. These imports were those required to increase ex-

FIGURE 2
Total debt service/exports of goods and services
(percent)



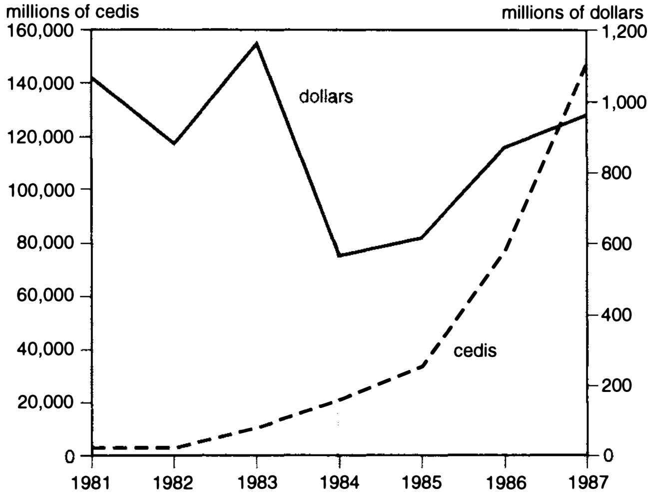
Source: World Bank.

FIGURE 3
Exchange rate
(average cedis per dollar)



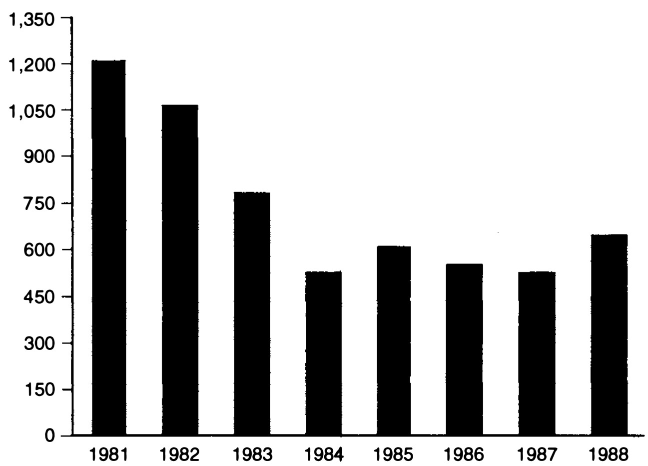
Source: Africa Recovery.

FIGURE 4
Value of exports



Source: International Monetary Fund.

FIGURE 5
Gross domestic investment
(millions of cedis)



Source: World Bank.

ports, or were simply subsidized food and clothing imports that drove local enterprises out of business. According to *Africa Recovery,* "A surge in second-hand clothing imports forced closures in Ghana's own textile and garments industry. . . . Local rice sits in silos, unable to compete against subsidized imports."

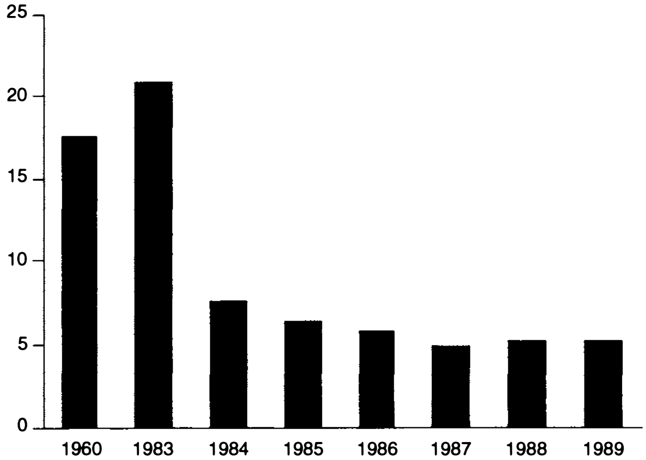
The entire process could be described as the IMF's "vacuum cleaner effect"—the country is sucked dry of its goods, at no extra cost to the industrialized countries receiving the exports.

Result: hungry children

Predictably, the internal economy of Ghana has contracted dramatically. The level of annual gross domestic investment has halved (**Figure 5**). Even more to the point, in dollar terms, the gross domestic product has fallen by more than two-thirds since 1981 (**Figure 6**).

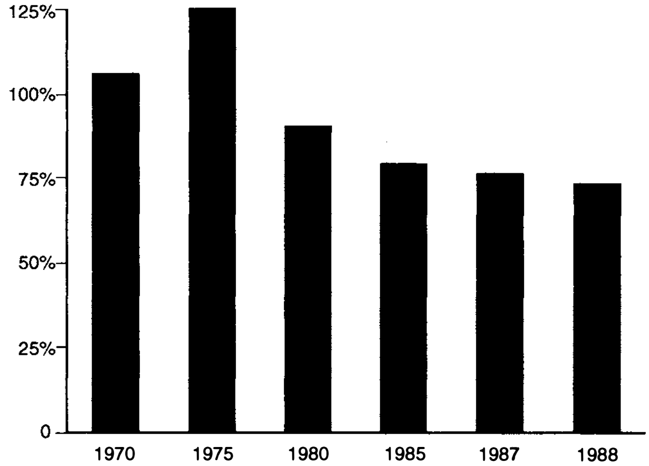
There has been a consistent decrease in production for the actual domestic market, *Africa Recovery* pointed out. "While the share of manufacturing in GDP may have risen to slightly over 10% by 1989, this was still below its 1973 level, according to the World Bank."

FIGURE 6
Gross domestic product
(billions $)



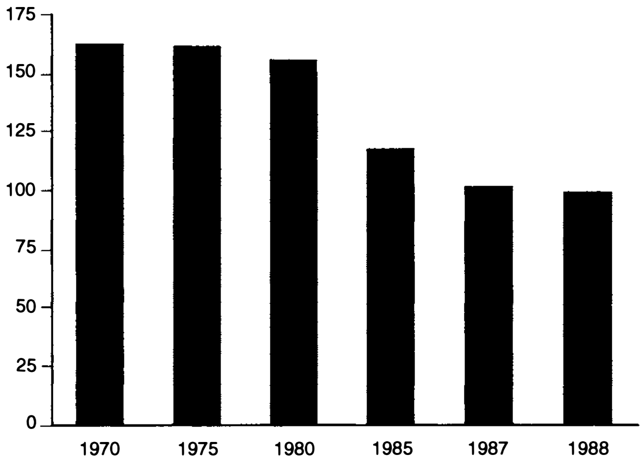
Source: Africa Recovery.

FIGURE 8
Food self-sufficiency ratio
(percent)



Source: United Nations Development Program.

FIGURE 7
Energy consumed per person per year in kilograms of coal equivalent



Source: U.S. Department of Agriculture.

FIGURE 9
Daily caloric supply
(% of requirement)

Source: United Nations Development Program.

A policy was also instituted to "keep down wages for purposes of foreign investment," reported *Africa Recovery*. "Minimum daily wage went from the equivalent of $1.46 in 1984 to only 60 cents in 1988. Average monthly wages in industries with more than 10 employees in turn fell from $374.12 in 1983 to $72.95 in 1987."

What does this mean for Ghanans? According to the U.S. Department of Agriculture, the energy consumed per person in Ghana in a year has fallen by 40% since 1970 and and by 37% since 1980 (**Figure 7**).

Daily caloric supply has fallen from 87% of what the United Nations considers a minimal requirement to 76% of that requirement in 1985 (**Figures 8** and **9**). *Africa Recovery* reports that the Ghana Living Standards Survey released in 1990 shows rising levels of malnutrition, and over 51% of Ghana's children were underweight in 1985.