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GHANA'S ECONOMIC OBJECTIVES AND PERFORMANCE  
1957 - 1966

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## INTRODUCTION

This paper presents results from one part of a broader study - into the general role of external assistance and industrialization with particular reference to medium term finance - which was carried out in Ghana during the summers of 1966 and 1967.<sup>1</sup>

On February 24th 1966 Kwame Nkrumah, after some nine years of uncontested rule as President of Ghana, was deposed by a combined military and police action. In section one of this paper an attempt is made to outline the economic objectives which the Nkrumah administration set. In section two the manner in which these were (or, as it is argued here, were not) attained is set forth.

### GHANA'S ECONOMIC OBJECTIVES 1957-1966

In the forward to the Ghana Government's Seven Year Development Plan presented to the Nation in 1963, Nkrumah wrote:

The Seven Year Development Plan provides the blueprint for the future progress and development of Ghana as a nation. It is a programme of social and economic development based on the use of science and technology to revolutionize our agriculture and industry. It is designed to provide the basis not only of our national progress and prosperity, but also of our ability to contribute to the advancement of the African Continent.

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<sup>1</sup>My thanks are due to the members of the National Liberation Council (Government of Ghana), the Principal Secretaries and staff of the Ministries of Industries, Economic Affairs, Trade, Finance and the State Enterprises Secretariat (Government of Ghana) as well as, and in particular, to the Ghana Central Bureau of Statistics and the members of the Research Department of the Bank of Ghana. Thanks are also due to personnel of the United Nations Development Programme (Accra) and the United Nations Industrial Development Organization (Vienna) for financial and other support as well as to the Centre for Developing Area Studies, McGill University for financial support and encouragement.

None of the above bodies, nor the persons associated therewith, bear responsibility for what is here presented

See, Forward, Seven Year Development Plan 1963/64-1969/70 (Accra: Government Printing Office), 1964.

These words, written when Nkrumah was at the height of his power, are interesting in two main respects. First, because they stress the future role allocated to industrialization in Ghana's development. And, second, because they intimate that Ghanaian economic development is to be accomplished not only for Ghana's sake but rather so that thereby Ghana might be better able to contribute to, "the advancement of the African Continent"; a certain reflection, one must suppose, of Nkrumah's pan-africanist aspirations and one not quite so blatantly expressed in similar forwards to previous Development Plans.<sup>3</sup>

In all, between 1951 and 1966 Ghana implemented three major Development Plans and one Consolidation Plan.<sup>4</sup> All called, in a general way, for achievement of the most rapid economic development. The first two plans and the consolidation plan differed from the Seven Year Plan, however, in that they called only for the most rapid development consistent with financial prudence. In the Seven Year Plan all such prudence was completely abandoned and rather, it seems, objectives set forth without any consideration - except reliance upon external sources of finance - of how these might be reasonably and prudently attained.

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<sup>3</sup> During his latter years the pan-africanist movement appears to have occupied an ever increasing amount of Nkrumah's time and energy and, by implication, that of his senior advisers and cabinet ministers. It also drained off considerable sums of Ghana money. Although some of the social and infrastructure projects commissioned by the Nkrumah administration might conceivably have been of direct benefit to Ghanaians, the majority of these projects and in particular, the prestige projects (such as, for example, the building of State House at a cost of over £0.10 million to house the O.A.U. conference for five days, or the building of Africa's longest runway in Tamale at equally exorbitant costs) were not. Rather, they proved to be an especially heavy drain on the country's resources for, as it transpired, little direct practical benefit.

<sup>4</sup> Ghana implemented her First and Consolidated Development Plans between 1951 and 1958; the Second Development Plan between 1959 and 1963 and the Seven Year Development Plan after 1963.

In the First Development Plan a prominent place was given to (i) the establishment of transportation, educational and health facilities, (ii) the construction of government buildings and staff housing, (iii) other general administrative services and (iv) other non-economic public activities. Substantial investments were also planned (and made) during this period in the port and township of Tema as well as, to a lesser extent, in support of the cocoa industry (particularly toward the elimination of the swollen shoot disease) and agriculture in general. In total some £G.24 million (at the 1966 rate of exchange U.S. \$165 million) of government funds were spent.<sup>5</sup> For the most part these expenditures were undertaken by the Government out of current revenues and through drawings upon exchange reserves. Until 1956 at least, foreign exchange receipts from the sale of cocoa and other commodities were sufficiently high so as to allow these development expenditures to take place with little effect upon total reserves.<sup>6</sup> In 1957, however, in the face of declining cocoa prices, a two-year "consolidation development plan was prepared which confined government expenditure to completing projects already begun and starting only the most urgent new ones."<sup>7</sup> In the first year of indep-

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<sup>5</sup>These funds were divided roughly as follows: Agriculture and Industry 10 percent or £G.10 million, Tema Port and Town 10 percent or £G.1 million, Social Services 23 percent or £G.24 million, Transportation and Communications 27 percent or £G.25 million. Other 27 percent or £G.25 million.

<sup>6</sup>See Table 7.

<sup>7</sup>Under this plan, expenditure in the Social Services was cut back substantially and a movement away from the provision of secondary and technical education begun. Between 1960-66, for example, emphasis was placed (wrongly it can be contended) on the provision of free primary education for Ghanaians with the result that shortages of technically trained and high school educated people were particularly noticeable after 1963/64. Indeed, this emphasis toward state provision of primary or university ed-

-dence, consequently, development spending was only £G.16.6 million (U.S.\$45 million), a million pounds less than in the year before. However, with higher cocoa prices, development spending increased to £G.16 million (U.S.\$47 million) in 1958-59.

The Second Development Plan<sup>8</sup> prepared in 1958 for implementation between 1959 and 1964 - in sharp contradiction to the First or Consolidation Plans - marked a shift from the use of government funds to provide basic services into the use of these funds to provide more direct government participation in production, particularly in agriculture, forestry and industry. The government, for example, under this plan indicated that £G.141 million (U.S.\$394 million) - expected to be financed in almost equal proportions from government reserves, current revenue, domestic loans and foreign loans - should be allocated for development purposes.<sup>9</sup> In addition to these directly planned government development expenditures proposals were contained within the Plan (and, after 1961 particularly, appear

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ucation only was one of the great weaknesses of the Ikrumah administration's effort in this regard since not only did it lead to scarcities of the type of manpower most often needed but also became a very costly procedure for the government insofar as for primary students there were large numbers, and for University students, the cost per student (all of whom could have full scholarships) was exorbitant.

<sup>8</sup>This plan was prepared under the guidance of Professor Arthur Lewis, Economic Adviser to Ikrumah in 1958.

<sup>9</sup>The exact amounts and proportions as set out under the Second Development Plan were (i) Tema Port and Town £G.24 million (17 percent), (ii) Transportation and Communications £G.17 million (12 percent), (iii) Direct assistance to Agriculture and Industry, £G.17 million (12 percent), (iv) Social Services £G.31 million (22 percent), (v) Other, of which it can be supposed some considerable proportion was for indirect assistance to Industry and Agriculture as well as toward the provision of government buildings and ancillary construction, £G.50 million (37 percent). See Second Development Plan (Accra:Government Printing Office), 1959.

to have been increasingly acted upon) to make additional expenditures of £G.100 million outside the Plan, primarily for industrial (and, one must - in the light of what happened - suspect, other not quite so directly industrial projects such as the building of a dry-dock at Tema, and the construction of a four-lane twenty-mile super-highway between Tema and Accra) projects. Additional expenditures were, from time to time, proposed - some of which were acted upon, some of which were not - and indirect allowance made for them in the most general of terms within the framework of the Second Plan.<sup>10</sup>

Except that £G.141 million was listed for "immediate implementation", the Second Development Plan appears to have been drawn up without any explicit priorities, nor was the total related to the availability of finance. In large part it seems that the Government took the official view that it should avoid being criticised for trying to do too little and rather declare itself in favour of as long a list

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<sup>10</sup>The most notable of which was, perhaps, The Volta River Project. In 1958 when the Second Plan was drawn up, the notion of harnessing the power of the Volta River and converting it to electricity to supply Ghana (and, in particular, an aluminium smelter at Tema; which it was though might be attracted by an abundance of cheap power and ample supplies of bauxite) was being given some consideration by the Ghanaian authorities. In fact, active negotiations for the Dam and Smelter were not entered into before the Plan was put into operation. However, during the Plan period (and in a real sense completely extra to it) construction on the Volta Dam, ancillary facilities and the smelter was begun. The total cost of the project exceeded £G.80 million (U.S. \$875 million) of which Ghana borrowed about half. On the basis of data available in 1960 (when serious negotiation was underway) it appeared as if the project might yield only about 6½ percent return on the Government's investment and this only over the whole life of the project. In the first years of operation its contribution to national produce (overall about 1 percent) would be very small and other indirect benefits might be long in maturing. In view of this, one wonders, therefore, why the Nkrumah Government went ahead with the construction of the dam when it could have gotten an equally good return on its money by investing it in the London or New York market and when the planning and administration stages proved to be such a drain on available Ghanaian administrative resources. One must suspect that chauvanism and ignorance played their part in this (Nkrumah's) decision.

of projects as possible. This philosophy also appears to have underscored the £8.100 million of new proposals made after the Second Development Plan was published.

The intense Government development efforts undertaken within the general framework of the Second Development Plan, had by 1963/64 (when a new Seven Year Development Plan was introduced) resulted in fundamental changes in the size and role of the public sector in Ghana. By 1964, not only had the number of ministries, government departments and public corporations proliferated out of all proportion to their direct contribution to National product, but also the number of Ghanaians directly or indirectly dependent upon Government sources for their livelihood had, by some estimates,<sup>11</sup> trebled or even quadrupled since 1959. These (what elsewhere might be regarded as) rather startling considerations did not, however, seem to diminish the ardour of the central Government (or more particularly, one suspects, the President) for ever increasing "development" expenditures. Indeed, in the Seven Year Development Plan introduced in that year, a larger and ever larger role for the government was envisaged. Not only, for example, was it planned that government should assist agriculture, forestry, provide better transportation and communications and increase its investment in social services, but its especial role in the seven years until 1970 was conceived also in terms of the assistance (generally through direct ownership and operation) government could give to industry. Indeed, the Seven Year Plan (much more explicitly than its predecessors) outlined these objectives in the most precise terms when inter alia it argued that Ghana Government intended to develop the large scale industrial sector by:-

- (a) Establishing industries wherever practicable to provide domestic institutes for the manufactured staples

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<sup>11</sup>See, for example, West Africa, Jan.15, 1965 and

of the consumer demand, which at present have to be imported:

(b) Processing, wherever economically feasible, those agricultural and mining commodities that are now exported as primary products such as cocoa, timber and gold:

(c) Setting up industries to provide materials for the building industry, in order to conserve on foreign exchange, and to lower costs of production:

(d) Setting up, where appropriate, basic industries in the fields of metals and chemicals:

(e) Initiating the development of other basic industries which will form part of later stages of industrialization in subsequent plans:

(f) Planning industrial development in harmony with the development of other African countries.<sup>12</sup>

The above list of objectives, as presented, was indeed impressive. How far, however, did the Ghana Government go toward realising those ambitions? To answer this question it is necessary to review the actual performance of the Ghana economy between 1957 and 1966 and to then compare this performance with the Government's stated objectives. This comparison, as is suggested in what now follows, does not, however, show the Government in a particularly favourable light.

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various issues in March, April, May, 1966.

<sup>12</sup>See, Seven Year Development Plan (Accra: Government Printing Office), 1964.

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Perhaps the best way to sum up Ghana's post independence performance is to say that as a consequence of it the military government which replaced Nkrumah found itself faced with a major economic and financial crisis. So major, in fact, that within a few months of assuming office it had been forced to (a) suspend all payments on medium-term and most long-term foreign credits and attempt to reschedule its debts to avoid being declared bankrupt, (b) for a short time, suspend payments on 180 day trade credits for lack of foreign exchange, (c) introduce a severely deflationary budget and institute a two year austerity "consolidation programme", (d) borrow heavily from the I.M.F. and plead for financial assistance from "friendly governments" for balance of current payments support and finally, after being in office a little over a year, (e) devalue the country's currency by over forty percent.

To merely say that Ghana was on the verge (or perhaps over the cliff) to bankruptcy as a nation in February 1966 is in no way, however, to quite capture the tragedy of its situation. Prior to independence, as the Gold Coast, Ghana had long been held in a position of considerable esteem among African countries. It had a long

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<sup>1</sup> Certain statistical difficulties attach to any analysis of Ghana's performance between 1957-1966, these, among others, being: (1) during the nine year period the financial year was changed three times (and once lasted fifteen months), (2) the period was one of increasing inflationary price movement, especially after 1961, thus to get any measure of the real rate of growth, comparisons in constant prices have to be used. Their use, however, subject the result to all the errors of index numbers, and (3) the national accounts of Ghana are based primarily on expenditure estimates and thus give only limited indication of economic growth by sector.

history of solvency and a particularly impressive record of economic growth. At independence and for a few (but only a few) years thereafter, it had large foreign exchange reserves, a history of impressive accomplishments in the educational, administrative and infrastructure fields, a trained and able civil service and several functioning semi-autonomous agencies such as, for example, the Cocoa Marketing Board. Indeed, its people had enjoyed one of the highest standards of living of all Africans. By 1966, however, much if not all of this had been lost. The country's foreign exchange reserves were exhausted; inflation was rampant; farmers could not grow sufficient food to feed the population; unemployment or under-employment, particularly after the coup, was high; industrial plants (often just unfinished shells) and highly mechanised large scale farms were lying idle for lack of spare parts; morale in the civil service had been devastated and inefficiency, and often corruption, among Nkrumah's political appointees had become the rule rather than the exception. Why, one may ask, did all this happen within the space of nine short years?

While there is no single or simple answer to the above question, tentative approaches toward an answer are provided upon examination of the quantitative evidence - growth, inflation, employment, government finances and debt, balances of payments position and so forth - of Ghana's economic performance. The remainder of this section, therefore, is devoted to a detailed examination of these indicators of performance.

#### GROWTH

##### (A) Rate of Growth

It is very difficult to give any precise measure of Ghana's rate of economic growth between 1957-1966 not only

because it is questionable whether in real terms any growth was experienced after 1960, but also because (1) development was erratic and, in particular, exhibited a pronounced 'stop-go-stop' pattern throughout the period, (2) 1957-1966 were years of increasing inflationary price movements especially after 1961 when prices for consumption goods rose at a substantially faster rate than for investment goods and, (3) even though the population was known to have expanded very rapidly during the period, estimates of its growth were placed variously at between 2.6 and 3 percent thus allowing for a considerable margin of error if either one or the other of these rates is used for denominative purposes.

These difficulties notwithstanding, some estimates of growth must, however, be made. In current market prices Gross Domestic Product appears to have risen from 2936 million in 1957 to 41,908 million in 1965. In constant 1960 prices, the increase was not nearly so large and, as is indicated in Table 1 between 1959-1965 it was less than 1300 million or if no account is made for population increase, approximately 4 percent over the six year period. Population expanded at an annual average rate of at least 2.6 percent, and more probably 3+ percent, during the same period however, thus if this is taken into account a more realistic measure of real growth in G.D.P. might have been, say, 1.2 percent per annum. This figure, however, is most deceptive and in no way, perhaps, is it really indicative of the pattern which this growth (if indeed this is a correct term) appears to have taken in Ghana. The figure is deceptive primarily because it assumes that the pattern of development in Ghana was even. In fact, it was not at all even.

Table 1

EXPENDITURE ON GROSS NATIONAL PRODUCT, 1959/65  
IN CONSTANT 1960 PRICES (a)

	1959	1960	1961	1962	1963	1964	1965
Private Consumption Expenditure	787	833	902	852	893	861	866
General Government Consumption Expenditure	101	115	125	137	151	161	198
Gross Domestic Fixed Capital Formation	197	233	240	218	259	265	285
Increases in stocks	+24	+26	-24	-12	-10	+31	-11
Domestic Expenditure	1,109	1,207	1,243	1,195	1,293	1,318	1,338
Exports of Goods and non-factor services	262	295	331	389	370	325	386
Imports of Goods and non-factor services	-303	-355	-386	-338	-374	-326	-397
Expenditure on Gross Domestic Product Net factor Income from abroad	1,068	1,147	1,147	1,188	1,246	1,317	1,327
Expenditure on Gross National Product	1,056	1,135	1,171	1,234	1,267	1,303	1,305

Source: Economic Survey: 1965 (Accra: Central Bureau of Statistics) p.107.  
(a) Expenditure in Old Cedis, 14=8 shillings and fourpence (£ sterling)

but very erratic.<sup>13</sup> Hence, despite an increase in gross domestic capital formation (see Table 4) to a high of approximately 30.8 percent of G.D.P. in 1965, the annual average rate of growth of real G.D.P. appears to have declined steadily from about 1960 onwards, falling from an average yearly increase of 5.4 percent in 1955-59 to 4 percent in 1960-63, to 3.8 percent in 1965.<sup>14</sup> With population increasing at between 2.6 and 3 percent per annum growth of output and real income per capita, therefore, must have declined sharply after 1960 and in 1965 even have fallen in absolute terms.<sup>15</sup>

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<sup>13</sup>So erratic, in fact, that the authors of the Economic Survey were forced to comment on several occasions: "Between 1960 and 1964, Ghana's economic development has exhibited a stop-go-stop growth pattern. This was remarked upon in last year's Survey and it was pointed out that the growth rate of 3.8 percent in 1964 could be considered satisfactory only if it can be maintained or improved upon over a number of years." The Survey proceeded to point out that if, as in 1960 and 1961, the growth rate in 1964 does not mark the beginning of a rising trend of real economic growth then the 1964 achievement does not mean much in terms of real gains for the national economy. "The growth rate of 3.8 percent recorded in 1965 was the poorest ever achievement of the Economy since statistical data on Gross National Product were compiled in 1960... (this) insignificant rate of growth of 3.8 percent could be compared with an estimated population growth of at least 2.6 percent during the same period. The figure also compares very unfavourably with the target rate of growth of 5.5 percent set in the Seven Year Development Plan." Economic Survey, 1965, pp.13-14.

<sup>14</sup>Ibid., pp.14-15.

<sup>15</sup>The contention made in later parts of this paper is that the decline in Ghana's real rate in growth of output and per capita income was primarily a function of (1) the terms of trade effects of the decline in world cocoa prices experienced by Ghana after 1960 particularly, (2) the patterns and priorities adopted by the Central Government in its Development Plans which increasingly after 1960 stressed Central Government establishment, financing and operation of large scale, capital intensive, primarily long gestation period (and hence in the short run economically unproductive) industries and farms and (3) rapid price inflation particularly in consumer goods, as a result of (a) the deficit financing operations entered in by the Central Government and (b) the country's inability to produce sufficient food for home consumption.

Table 2

## EXPENDITURE ON GROSS NATIONAL PRODUCT, 1955-1965 AT CURRENT MARKET PRICES

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Private Consumption Expenditure	619	648	715	686	780	833	965	996	1,059	1,185	1,506
General Government Consumption Expenditure	62	72	79	84	93	115	132	149	166	192	246
Gross Domestic fixed Capital Formation	125	134	134	132	185	233	252	221	262	278	309
Increase in stocks	-	+12	-14	-2	+24	+26	-24	-14	-10	+17	+1
Domestic Expenditure	806	866	914	900	1,082	1,207	1,325	1,349	1,517	1,672	2,062
Exports of goods and non-factor services	242	218	230	264	288	295	293	288	281	297	300
Imports of goods and non-factor services	-232	-237	-256	-228	-302	-355	-391	-324	-348	-340	-454
Expenditure on gross domestic product	816	847	888	936	1,060	1,147	1,227	1,313	1,450	1,629	1,908
Net factor income from abroad	-5	-5	-7	-5	-7	-12	-17	-12	-22	-14	-22
Expenditure on Gross National Product	811	842	881	931	1,061	1,135	1,201	1,301	1,428	1,615	1,886

Source: Economic Survey: 1965 (Accra: Central Bureau of Statistics) Table 2. p.15.

(B) Growth by Economic Sector

Unlike those of more developed countries, Ghana's national accounts are based principally on expenditure estimates with the consequence that only limited information on growth by sector can be deduced therefrom. Such information as is available however would seem to support a contention that (major) gains in output were made only in traditionally private (or semi-private areas) such as agriculture, certain extractive industries, trade and services. Public sector activity in the fields of agriculture, infrastructure, manufacturing and the social services - in which heavy investments were made particularly after 1960/61 - does not, on balance, appear to have led to increases in output commensurate with investment. In part, this can be explained, perhaps, by the fact that certain of the industries taken over by the government after 1960 (some of the mines, for example) were taken over simply to avoid the dislocation which their closing would have brought about and, hence, could not be profitable from the first. In part, too, it might be explained by the fact that much of the government's investment was in long-gestation period agricultural and infrastructure activity. But, in large measure, it might also be explained by the fact that after 1960 particularly, a large amount of public sector investment was used toward the establishment of what became a non-viable manufacturing industry.

INFLATION

Whatever gains in growth in current output were experienced by Ghana between 1957-1966, on balance, appear to have been largely eroded by the double spectre of inflation and population increase. Population, as has already been stated, was thought to have increased at an

annual average rate of between 2.6 and 3 percent during the period. A measure of the inflation experienced can best be given, perhaps, by recourse to data on annual average retail prices.

In table 3, such data are presented for the Accra area. This index, it should be noted, was based on the expenditure habits of consumers in 1954 and since statistical data collection was pretty much in its infancy in Ghana at that time, any conclusions drawn therefrom ought, perhaps, to be handled with some caution. However, the conclusion that there was rapid retail price inflation during the period, and particularly after 1960/61, seems inescapable. It is particularly interesting to note the disparities involved in these price increases. Local food costs, for example in 1965, had reached an all time high of 206.4, whereas fuel and light (in fact, minor items in the average Ghanaian's budget) had grown only to 144.0 by that year. These disparities, it is suggested, reflect three things, (1) that domestic food production had not grown sufficiently to cater for the needs of an expanded population, hence ordinarily food price inflation, (2) that because of the increases in food prices, Ghanaians were forced to substitute larger and larger amounts of their personal income for expenditures on this necessary item and thus smaller amounts were spent for light, fuel, clothing, etc., and (3) that this rapid price inflation (in the Accra area at least) was allowed to take place because of (or more properly was a direct result of) the particular way in which the Central Government went along operating and financing its development plans, in so far as through deficit financing large quantities of money and credit were put into circulation.

The above suggestions appear to hold up particularly well when compared (as in Table 4) with the composition

Table 3

	Weights	ANNUAL AVERAGE RETAIL PRICE INDEX FOR ACCRA (1954=100)									
		1957	1958	1959	1960	1961	1962	1963	1964	1965	
Local Food	400	112.4	111.7	115.4	114.6	121.6	133.8	139.0	162.5	226.4	
Imported Food	88	104.9	101.6	102.4	101.3	109.8	116.4	126.0	141.8	160.5	
Clothing	121	98.7	101.5	102.4	106.4	117.9	129.7	130.5	139.7	223.8	
Drink and tobacco	61	114.7	115.8	117.4	118.3	135.9	166.4	191.3	210.6	138.3	
Rent	54	113.3	118.4	128.8	130.0	132.7	132.7	132.7	132.7	174.9	
Fuel and light	50	99.0	97.4	95.7	98.0	103.1	106.1	101.8	118.4	114.0	
Services )		101.2	105.3	105.4	112.7	119.1	121.3 )				
Household Goods	134	100.7	99.9	100.4	103.6	105.3	112.7	124.7	137.7	166.5	
Miscellaneous		108.0	105.7	108.0	109.7	113.4	119.6 )				
All items	908	108.0	108.1	110.7	117.7	119.4	129.9	136.0	152.6	195.5	

Source: Economic Surveys, various issues.

Table 4

## COMPOSITION OF PRIVATE CONSUMPTION EXPENDITURE, 1955, 1960-1965 AT CURRENT

	PRICES (¢ million)													
	1955		1960		1961		1962		1963		1964		1965	
	¢M	%	¢M	%	¢M	%	¢M	%	¢M	%	¢M	%	¢M	%
Food Local	271	43.8	346	41.5	406	42.0	452	45.3	543	49.4	633	53.4	859	57.0
Imported	31	5.0	48	5.8	60	6.2	62	6.3	55	5.0	62	5.3	53	3.7
Beverages and tobacco	34	5.4	43	5.2	50	5.2	48	4.8	55	5.0	53	4.5	41	3.2
Clothing and other textiles	106	17.0	137	16.4	161	16.7	137	13.7	127	11.6	113	9.5	180	11.9
Other non-durable goods	24	3.9	36	4.3	38	4.0	38	3.9	38	3.5	31	2.6	36	2.4
Durable goods	24	3.9	26	3.2	34	3.5	26	2.6	31	2.8	19	1.6	38	2.5
Rent, fuel and light	55	8.9	79	9.5	86	9.0	91	9.2	99	8.9	103	8.7	108	7.2
Transport and communication	26	4.3	38	4.6	41	4.2	43	4.3	48	4.4	53	4.5	50	3.3
Miscellaneous, others	48	7.8	79	9.5	89	9.2	99	9.9	103	9.4	118	9.9	132	8.8
Private consumption Expenditure	679	100.0	832	100.0	965	100.0	996	100.0	1,099	100.0	1,185	100.0	1,506	100.0

Source: Central Bureau of Statistics.

of private consumption expenditures. From this table it can be seen that in 1955 only 43 percent of Ghanaian private consumption expenditure was on local food while in 1965 the percentage had risen to 57 percent. During the same period, however, expenditures (1) on clothing and other textiles had declined from 17 percent to 11 percent (and only 9.5 percent in 1964), (2) on durable goods by nearly one half from 3.9 percent in 1955 to 1.6 percent in 1964 and only 0.5 percent in 1965, and (3) on other non-durable goods by approximately one half, (in fact slightly less) from 3.9 percent to 2.4 percent.

The assertion was made above that much of the blame, apart from an ever expanding population, for the price inflation during the years 1957-1966 can be placed on the Central Government for its operation and, particularly, its financing, of development. It is appropriate, therefore that this be the next topic considered.

#### CENTRAL GOVERNMENT FINANCES

After independence (and particularly after 1961/62) the Ghana Central Government took upon itself the obligation of speeding up the country's rate of economic growth: an effort which involved it heavily in the establishment, financing and operating of a range of agricultural, infra-structure, and industrial activities. In part, it can be speculated, this decision was forced upon the Government because the private sector (restricted as it was to largely small scale farming, trade or industry) had insufficient capital and other resources - and, in the absence of a stock market, few ways of marshalling whatever resources might have been available - to contemplate such actions. But in part the decision also reflected a manifest government policy which stressed the need for Ghana to (1) increase national control over the economy, (2) diversify

the economy's agricultural base and export dependence, (3) develop import - competing or export - enhancing industries, and (4) take over those industries (in mining for example) whose closure might result in severe localised economic hardship. The decision to speed up economic development must also, one imagines, have been much influenced by the Government's awareness of its obligations, in so far as it might be able, to provide employment for its many thousands of loyal supporters.

The decision on the part of the Central Government to assume responsibility for increasing the rate of growth led also, after 1961/62 particularly, to a shift in emphasis in Government spending away from investment and support for primarily infrastructure and social service type projects<sup>16</sup> to direct investment in trade and industry. Indeed, the government share of gross domestic capital formation increased very rapidly after 1962 rising from £38 million in 1957/58 to £170 million in 1965 (see Table 5) or at an implied annual average rate of 15 percent while in the same period Gross National Product in current prices rose by only about half that annual rate. Consequently, the share of G.N.P. utilised by the Central Government for capital expenditures rose from about 3 percent to about 9 percent over the nine year period.<sup>17</sup> However, this increase in government direct capital expenditures does not include development expenditures financed out of suppliers' credits which after 1962 began,

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<sup>16</sup> Although, it can be added, not necessarily to any immediate reduction in the costs associated with these programmes. For example, the establishment of schools, hospitals or roads bring in their wake recurrent costs which have to be met each year. And, if, as in Ghana's case, many of these facilities are provided free (schools were, for example) then an actual reduction in revenue (through no schools fees) as well as increases in expenditure (through for example the provision of free text books) might occur (as they did in Ghana) simultaneously.

<sup>17</sup> See, Table 9

Table 5

CENTRAL GOVERNMENT CAPITAL FORMATION, PRIVATE CAPITAL FORMATION AND  
CENTRAL GOVERNMENT AND PRIVATE FORMATION AS PERCENTAGE OF

## GROSS DOMESTIC CAPITAL FORMATION 1958-1965

	1957/58	1958/59	1959/60	1960/61	1961/62 <sup>(1)</sup>	1962/63	1963/64 <sup>(2)</sup>	1965
Gross Domestic Fixed Capital Formation (total in \$ million)	133	158	204	242	236	242	270	298
Central Government Fixed Capital Formation (total in \$ million)	32	39	62	98	125	127	145	170
Gross Private domestic Fixed Formation (total in \$ million)	101	119	142	144	119	115	125	128
Central Government Domestic Fixed Capital Formation as a percentage of total Capital Formation	23	25	30	40	53	53	54	60
Gross Private Fixed Capital Formation as a Percentage to Total Capital Formation	77	75	70	60	47	47	46	40

Source: Central Bureau of Statistics, Economic Survey 1965 Accra, Table IX p.117, Table 1 p.107

1. Excludes "below-the-line" items and covers expenditures for 15 months averaged until over a 12 month period through a simple averaging of 1961-62 GNP data and Gross Capital Formation data.

2. Covers averaged expenditures of 15 month financial year.

on a very large scale. If capital formation from this source is included, as it is not in Table 5, then total public sector investment between 1957/58 and 1965/66 (and especially after 1961/62) may, in fact, have been much higher than the recorded one half of total investment indicated in Table 5. Indeed as is indicated in Table 6, known government foreign liabilities under suppliers' credits increased from \$14 million in 1959 to an estimated \$437.4 million (which estimate was subsequently revised upward to \$735 million) in 1965. Thus, if these huge externally financed sources of government investment are included, direct public sector participation in capital formation may have exceeded two-thirds of total investment over the whole period and, perhaps, been more nearly three-quarters of it.<sup>18</sup>

Had the Government been able to finance its growing share of investment during these years out of current revenue, then, although the set of priorities adopted may not have favoured private sector activity, little criticism could be directed at the Government for its financing of development. In fact, the Government was neither able to finance this investment out of current revenues nor, for the most part, were public investments placed in those areas of economic activity which offered the prospect of fast returns.<sup>19</sup> In consequence the Government, after 1960 particularly, was forced to engage in deficit financing, drawn down of its exchange reserves, liquidate its foreign investments and borrow on unfavourable terms, from abroad in order to finance its public spending activities. Details

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<sup>18</sup>Which, it can be supposed, presents a striking demonstration of the priorities adopted by the Ghana Government between 1957 and 1966 as well as the noncommittant hesitancy of private venture capital during the same period.

<sup>19</sup>Which is to say that investments in infrastructure or manufacturing projects are not likely to lead (nor did they) to economic returns in the short run.

Table 6

## KNOWN GOVERNMENT FOREIGN LIABILITIES AS AT END OF YEAR

	1959	1960	1961	1962	1963	1964	1965
Joint Consolidated Fund	4,526	7,536	11,959	10,387	11,575	13,193	13,906
Government Stocks	7,632	7,632	7,632	7,632	2,808	2,808	2,808
I.M.F. Drawings	-	-	-	12,214	12,214	12,214	12,214
Volta River Project Loans	-	-	-	312	19,450	38,494	55,699
Supplier Credits(1)	2,198	33,019	68,080	145,860	281,407	376,682	437,361
Counterpart Funds	-	-	-	-	-	5,947	8,283
TOTAL	14,356	48,187	87,671	167,405	327,454	449,338	530,271

Source: Economic Survey: 1965 (Accra: Central Bureau of Statistics), Table 9, p. 29.

(1) Provisional.

Thousand Cedis

of the way in which this appears to have been done are shown in Tables 7-12 inclusive and Chart 1.

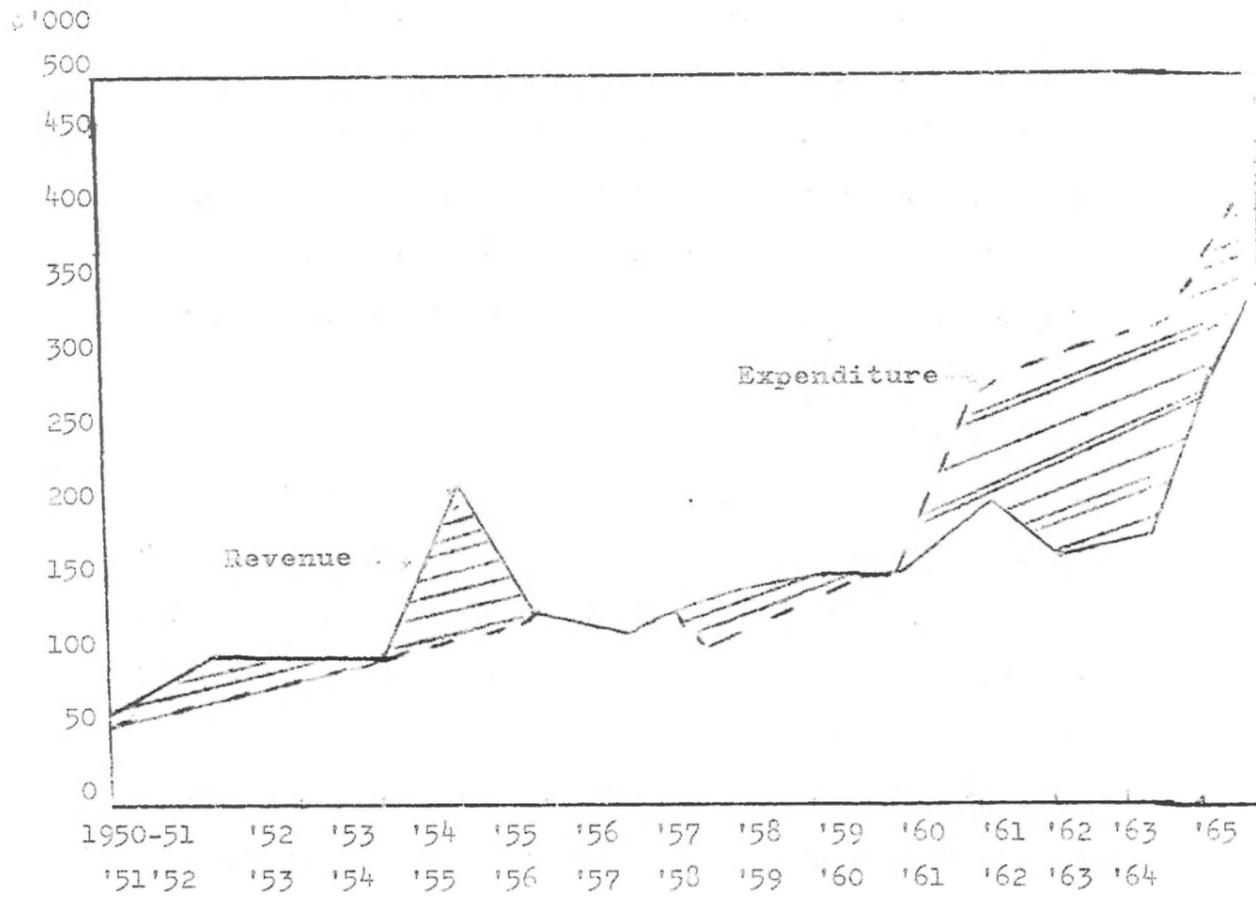
Chart 1 illustrates the general dimensions of the Central Government's revenues and expenditures between 1957 and 1966 and, in particular, the manner in which overall government deficits increased rapidly after 1959.

Table 7 shows the sources of Central Government revenue during the period and is particularly interesting in four respects, namely:

- (1) it indicates that as a result of the decline in world cocoa prices after 1957, the Ghana Government's income from this source declined both absolutely and relatively from a high of 54.5 million (37.7 percent of total revenue in 1957) to a low of 23.7 million (or 7.3 percent of total revenue) in 1965;
- (2) that much of the decrease in diminished revenues from cocoa duties was taken up by a more wide-based and efficient system of tax collection and that, in fact, between 1957-1965 total government tax revenues increased from 25.9 million (17.9 percent) in 1957 to 144.9 million (or 43.1 percent) in 1965;
- (3) while export duties may have declined as a source of Government Revenue import duties provided sustained increases in it, ranging from 24.9 percent of revenue in 1957 to 37.8 percent in 1965 which suggests that (a) the terms of trade were very much against Ghana during the period in so far as its receipts from export duties declined while (b) the country's total import bill not only increased in absolute terms but quite markedly too in relative terms. Doubtless, some of this latter increase, can be accounted for by the greater need for spare parts and ancillary equipment and machinery which the Government's investments in large scale highly mechanised agriculture and industry

Chart 1

CENTRAL GOVERNMENT REVENUE AND EXPENDITURE  
1950/51-1965



Source: Economic Survey 1965 (Accra: Central Bureau of Statistics),  
Chart 1, p. 22.

Table 7

## CENTRAL GOVERNMENT REVENUE BY SOURCE 1957-1965

	1957/58		1958/59		1959/60		1960/61	
	₹ Million	Percentage	₹ Million	Percentage	₹ Million	Percentage	₹ Million	Percentage
Cocoa Duty	54.5	37.7	60.2	37.5	51.6	30.6	36.7	18.4
Other Export Duty	-	-	1.7	1.0	1.9	1.1	1.9	1.0
Import Duties	76.0	24.9	38.6	24.1	45.5	27.0	61.2	30.7
Other Production & Expenditure Taxes	6.7	4.6	9.0	5.7	9.6	5.7	10.8	5.4
Taxes on Income & Property (including Fines)	17.2	13.3	19.4	12.1	17.8	10.6	21.4	10.7
Voluntary Contributions(3)	-	-	-	-	13.1	8.2	26.4	13.2
Sales and Fees	10.0	7.6	13.1	8.2	15.6	9.3	19.2	9.6
Interest, Profits & Rents	3.2	5.7	10.3	6.4	9.1	5.4	16.9	8.4
Grants	7.4	5.1	5.4	3.4	2.6	1.6	3.5	1.7
Other	1.6	1.1	2.2	1.6	1.2	0.7	1.7	0.8
TOTAL:	143.6	100.0	159.9	100.0	168.3 <sup>(4)</sup>	100.0	199.7	100.0

Source: Central Bureau of Statistics, Economic Surveys for 1961, 1963 and 1965.

1. Covers 12 months' period only.

2. Covers 15 months' period.

Table 7

## CENTRAL GOVERNMENT REVENUE BY SOURCE 1957-1965(Cont.)

	1961/62		1962/63		1963/64		1963/64 (2)		1965	
	\$ Million	Percent-age	\$ Million	Percent-age	\$ Million	Percent-age	\$ Million	Percent-age	\$ Million	Percent-age
Cocoa duty	35.3	19.6	30.0	15.2	40.9	13.9	44.0	12.5	23.7	7.0
Other Export Duties	1.4	0.8	1.2	0.6	1.6	0.6	1.8	0.5	1.0	0.3
Import Duties	69.3	38.5	80.8	40.8	82.6	28.1	104.4	29.6	129.0	37.8
Other Production & Expenditure taxes	19.1	10.7	26.0	13.2	33.2	11.3	42.4	12.4	77.2	22.7
Taxes on Income & Property (including Fines)	26.8	14.9	20.1	15.1	57.5	19.6	72.8	20.7	70.7	20.7
Voluntary Contributions	-	-	-	-	44.7	15.2	44.7	12.7	-	-
Sales and Fees	18.5	10.3	22.2	11.1	25.7	8.6	33.3	9.5	29.6	8.7
Interest, Profits & Rents	6.0	3.3	6.0	3.0	5.8	1.9	5.9	1.7	5.4	1.6
Grants	0.7	0.4	-	-	-	-	-	-	2.5	0.7
Other	2.3	1.5	1.8	1.0	2.3	0.8	2.6	0.7	1.6	0.5
TOTAL:	180.0 (4)	100.0	198.0 (4)	100.0	249.0 (4)	100.0	351.1 (4)	100.0	340.8	100.0

Source: Central Bureau of Statistics, Economic Surveys for 1961, 1963 and 1965.

3. The contributions by cocoa farmers for 1961-62 and 1962-63 were paid in 1963-64 by the Cocoa Marketing Board.

4. 1957-1965 revenue given originally in £ converted into cedis for comparative purposes here.

Table 8

## GOVERNMENT REVENUE AND ITS RELATION TO GNP AND IMPORTS

	1957/58	1958/59	1959/60	1960/61	1961/62 <sup>(1)</sup>	1962/63	1963/64 <sup>(1)</sup>	1965
GNP at Current Prices <sup>(2)</sup>	906.0	996.0	1098.0	1,168	1,251.0	1,397.0	1,572.0	1,886.0
Imports <sup>(2)</sup>	222.0	237.0	291.0	327	311.0	305.0	297.0	384.0
Government Revenue	143.6	159.9	168.3	199.7	180.0	198.0	249.0	340.8
Cocoa Duty <sup>(3)</sup>	54.5	60.2	51.6	36.7	35.3	30.0	40.9	23.7
Other Export Duties	-	1.7	1.9	1.9	1.4	1.2	1.6	1.0
Import duties	36.0	38.6	45.5	61.2	69.3	80.8	82.6	129.0
Other production & expenditure taxes	6.7	9.0	9.6	10.8	19.1	26.0	33.2	77.2
Taxes on income and property (including fines)	19.2	19.4	17.8	21.4	26.8	30.1	57.5	7.7
Voluntary contributions	-	-	13.4	26.4	-	-	44.7	-
Sales and Fees	10.0	13.1	15.6	19.2	18.5	22.2	25.7	29.6
Interest, profits & Rents	8.2	10.3	9.1	16.9	6.0	6.0	5.8	5.4
Grants <sup>(4)</sup>	7.4	5.4	2.6	3.5	.7	-	-	2.5
Other	1.6	2.2	1.2	1.7	2.8	1.8	2.3	1.6
Government Revenue in Relation to GNP (percent)	15.9	16.0	15.3	17.2	14.3	14.2	15.9	18.1
Cocoa Duty	6.0	6.1	4.7	3.2	2.8	2.2	2.6	1.3
Other export duties	-	.2	1.7	.2	.1	.1	.1	.1
Import duties	4.0	3.9	4.1	5.2	5.6	5.7	5.3	6.8
Other production and expenditure taxes	.7	.9	.9	.9	1.5	1.8	2.1	4.1
Taxes on income and property (including fines)	2.1	1.9	1.6	1.8	2.1	2.2	3.7	.4
Voluntary contributions	-	-	1.2	2.3	-	-	2.8	-
Sales and fees	1.1	1.3	1.4	1.6	1.5	1.6	1.6	1.6
Interest, profits & Rents	.9	1.0	.8	1.4	.5	.4	.4	.3
Grants	.8	.5	.2	.3	.1	-	-	.1
Other	.2	.2	.1	.1	.2	.1	.1	.1
Import Duties in Relation to Imports (percent)	16.2	16.3	15.6	16.8	22.3	26.5	26.8	33.5

Sources: Economic Surveys 1961, 1963, 1965 Quarterly Digest of Statistics (Accra) various issues and direct information from Ministry of Finance Accounts, Central Bureau of Statistics.

1. 1961/62, 1962/63, 1963/64, 1964/65 and 1965/66 are calendar years. 1961/62 result from single average of 2 calendar years.

Table 9 (cont.)  
 For years 1963/64 and 1965/64 complex average of two calendar years with first year given weight of 3 and the second year a weight of 1 were taken.  
 3. No data available for 1957/58 on other export duties therefore these are lumped with Cocoa duties.  
 4. These were mainly paid by Cocoa farmers in addition to an export tax on Cocoa.

Table 9  
 GOVERNMENT EXPENDITURES AND THEIR RELATION TO GNP (in million)

	1957/58	1958/59	1959/60	1960/61	1961/62(1)	1962/63	1963/64(1)	1965
GNP at Current Prices(2)	900.0	996.0	1,098.0	1,168.0	1,251.0	1,397.0	1,572.0	1,886.0
Total Government expenditure	126.1	148.7	182.6	259.6	274.4	318.5	346.0	433.9
Expenditure on Current accounts	93.7	109.4	115.6	160.3	166.4	191.1	226.5	263.5
Expenditure on capital account	32.3	39.3	67.0	98.3	108.0	127.4	120.5	170.4
(Capital expenditures)	(23.2)	(29.6)	(43.8)	(75.4)	(90.1)	(86.2)	(76.0)	(121.6)
(Transfer payments)	(9.1)	(9.7)	(23.2)	(22.9)	(17.9)	(41.2)	(44.5)	(48.8)
Government expenditures in relation to GNP (%)	14.0	15.0	16.5	22.1	21.9	22.8	22.0	23.0
Current	10.4	11.0	10.4	13.7	13.3	13.7	14.3	14.0
Capital	3.6	4.0	6.1	8.4	8.6	9.1	7.7	9.0
General increases in expenditure (%) (3)								
Total	18	16	25	38	6	16	7	28
Current	16	16	10	33	4	15	15	19
Capital	22	22	70	47	10	18	6	46

Source: Central Bureau of Statistics, Economic Surveys Quarterly Digest of Statistics and direct information.

1. Covers 12 months' period.
2. Converting GNP and imports to fiscal years by taking the simple average of the 2 calendar years for 1957/58-61/62 and by taking the average of the 2 calendar years with the first year given a weight of 3 and the second of 1 for the years 1962/63 and 1963/64.
3. Percentages are rounded to nearest whole numbers.

had engendered. However, it is unlikely that all of it had its origin in this sector, rather some must have been the result of a greater desire and (because of inflationary financing) capacity to purchase imported goods and services; (4) a not insignificant proportion of the government's revenue during the period 1959/60, 1960/61 and 1963/64-1964/65 originated in so called voluntary contributions made to it, by cocoa farmers primarily through the Cocoa Marketing Board, and others. In fact, these contributions were more mandatory than voluntary and in a real sense, the result of a disguised form of taxation.

In Table 8, Central Government revenue is compared to Gross National Product at current market prices as well as with imports. What emerges from these comparisons of particular interest, is that not only did Government revenue as a percentage of Gross National Product increase but also that revenue from import duties in relation to imports increased quite markedly; a reflection again one can suppose, of the vital role played by this source in providing government with operating funds as well as the country's increased dependence upon imports despite the government's avowed efforts to make this less so.<sup>20</sup>

Table 9 indicates the relationship between Central Government expenditures and Gross National Product. From the data so provided it can be seen, (1) that from a low of 14 percent of G.N.P. in 1957, Government expenditures rose to a high of 23 percent in 1965, (2) that the percentage of capital to current expenditures by government in relation to G.N.P. increased from 3.6 percent in 1957 to

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<sup>20</sup> See, for example, Seven Year Development Plan 1963/64-1969-70, op.cit., pp.3-4,70-75, pp.101-112 and forward.

Table 10

## CENTRAL GOVERNMENT FINANCES (in million)

	1957/58	1958/59	1959/60	1960/61	1961/62 (1)	1962/63	1963/64 12 months	1963/64 15 months	1965
Ordinary revenue	113.6	159.9	154.9	173.2	180.0	198.0	249.3	307.4	340.8
Voluntary contributions	-	-	13.4	26.5	-	44.7	44.7	644.7	-
Total revenue	<u>113.6</u>	<u>159.9</u>	<u>168.3</u>	<u>199.7</u>	<u>180.0</u>	<u>198.0</u>	<u>249.0</u>	<u>352.1</u>	<u>340.8</u>
Total expenditures	116.1	148.7	182.6	258.6	274.4	318.5	346.0	453.0	433.9
Excess of expenditures over revenue	-17.5	-11.2	14.3	58.9	94.4	120.5	52.0	100.9	93.1
Payments made from Contingency fund	-	-	-	-	0.3	-	4.8	-	-
Contributions to decreases in liabilities	-	-	-	-	-	-	-	-	-
Refund of revenue	0.1	0.2	0.1	0.4	0.2	0.2	0.1	0.2	0.2
Loans repaid	0.7	1.4	11.1	3.1	0.1	3.1	45.8	43.3	29.1
Decreases in trust and special funds	-	-	-	-	1.7	-	-	6.4	-
	<u>0.8</u>	<u>1.6</u>	<u>11.2</u>	<u>3.5</u>	<u>10.0</u>	<u>3.3</u>	<u>45.9</u>	<u>49.9</u>	<u>29.3</u>
Contributions to increase in financial assets	-	-	-	-	-	-	-	-	-
Sinking fund contributions	1.1	1.0	0.7	1.0	1.5	1.0	0.6	0.8	0.5
Increases in advances (net)	0.4	2.7	4.6	14.3	3.5	-	6.0	4.9	8.4
Loans granted	14.1	35.9	21.3	9.1	24.3	-	0.1	0.1	3.3
Increases in cash balances	-	2.2	9.3	-	20.8	14.4	-	-	-
Increases in investments	18.2	-	-	-	26.8	2.2	9.3	3.6	-
Others (2)	<u>2.0</u>	<u>0.7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation of bonds	<u>35.8</u>	<u>42.5</u>	<u>35.9</u>	<u>24.4</u>	<u>56.1</u>	<u>17.6</u>	<u>16.0</u>	<u>9.4</u>	<u>12.2</u>
Total financial exp	28.1	32.9	65.5	86.8	160.8	143.3	118.7	160.2	134.6

1. Covers 12 months' period.

2. Transfers to other funds and investment in Bank of Ghana.

Source: Central Bureau of Statistics, Economic Surveys and direct information from Bank of Ghana and U.N.D.P.

9.0 percent in 1965, (3) that the general increases in government expenditure averaged perhaps 80+ percent per year with erratic, but particularly well marked, percentage annual increases in capital expenditures. All of which suggests, of course, that not only did the government spend considerably more than it received during these years, and especially after 1961, but also that on the average, proportionately a larger amount was committed for capital than current purposes.<sup>21</sup>

In Table 10 an attempt has been made to present a consolidated picture of Central Government finances between 1957-58 and 1965. It shows, principally, (1) that in all years save 1957-58 total government expenditure exceeded government revenue,<sup>22</sup> (2) that, if used in conjunction with data in Table 5, government capital expenditure as a percentage of total expenditure rose from approximately 23.8 million out of 146.6 million (or approximately 21 percent) in 1957 to 170 million out of 433.9 million (or over 40 percent) in 1965 and (3) that in consequence, an ever increasing gap between government commitments and its ability to meet these out of current revenue arose.

The manner in which the Government attempted to finance its annual deficits is illustrated by the data presented in Table 11. As can be observed, a variety of expedients were used. These varied from external borrowing and reductions of overseas investments to borrowing at home, initially and principally from the Cocoa Marketing

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<sup>21</sup>Which is not to say, however that current expenditures did not increase quite substantially during the period too.

<sup>22</sup>In 1957/58 and 58/59 there was an excess of revenue over expenditure of 17.5 million and 11.8 million respectively. These excesses, however, were used in part as contributions toward a reduction of past Government liabilities as well as towards increasing the government's assets hence, the resultant financial gap.

Table 11  
CENTRAL GOVERNMENT - FINANCING OF BUDGET GAP. (in millions)

	1957/58	1958/59	1959/60	1960/61	1961/62(1)	1962/63	1963/64(2) 12 months	1963/64 15 months	1965
Total financial gap	28.1	32.9	65.5	86.8	160.8	143.3	118.7	160.2	134.6
External Borrowing	-	9.7	-	17.0	-	2.0	2.1	8.2	3.0
Internal Borrowing	-	-	53.5	14.3	99.8	128.7	84.8	129.9	121.2
Cocoa Marketing Board	-	-	39.3	-	-	-	-	-	-
Treasury Bills	-	-	14.2	4.7	68.1	-	23.1	37.1	37.6
Ways and Means advances	-	-	-	-	19.2	36.0	-	12.0	-
Government Stocks and Bonds	-	-	-	9.6	-	70.8	58.0	67.8	83.8
Decreases in Investments	11.9	-	9.2	42.7	56.7	-	24.8	20.9	-
Decreases in cash balances	-	16.6	-	7.0	-	-	-	-	2.3
Unspecified	6.2	6.6	6.2	5.8	4.3	12.6	7.7	2.0	8.1

1. Covers 12 months' period.

2. Covers separately a 12 month and a 15 month period.

3. Unspecified means other sources of financing such as, for example, increases in liabilities, loan redemptions, appreciation of bonds, National Day Bonds or borrowing from Railway and Harbour Administration - details of these sources of finance not known.

Source: Central Bureau of Statistics, Economic Surveys, 1961, 1963, 1965 and direct information.

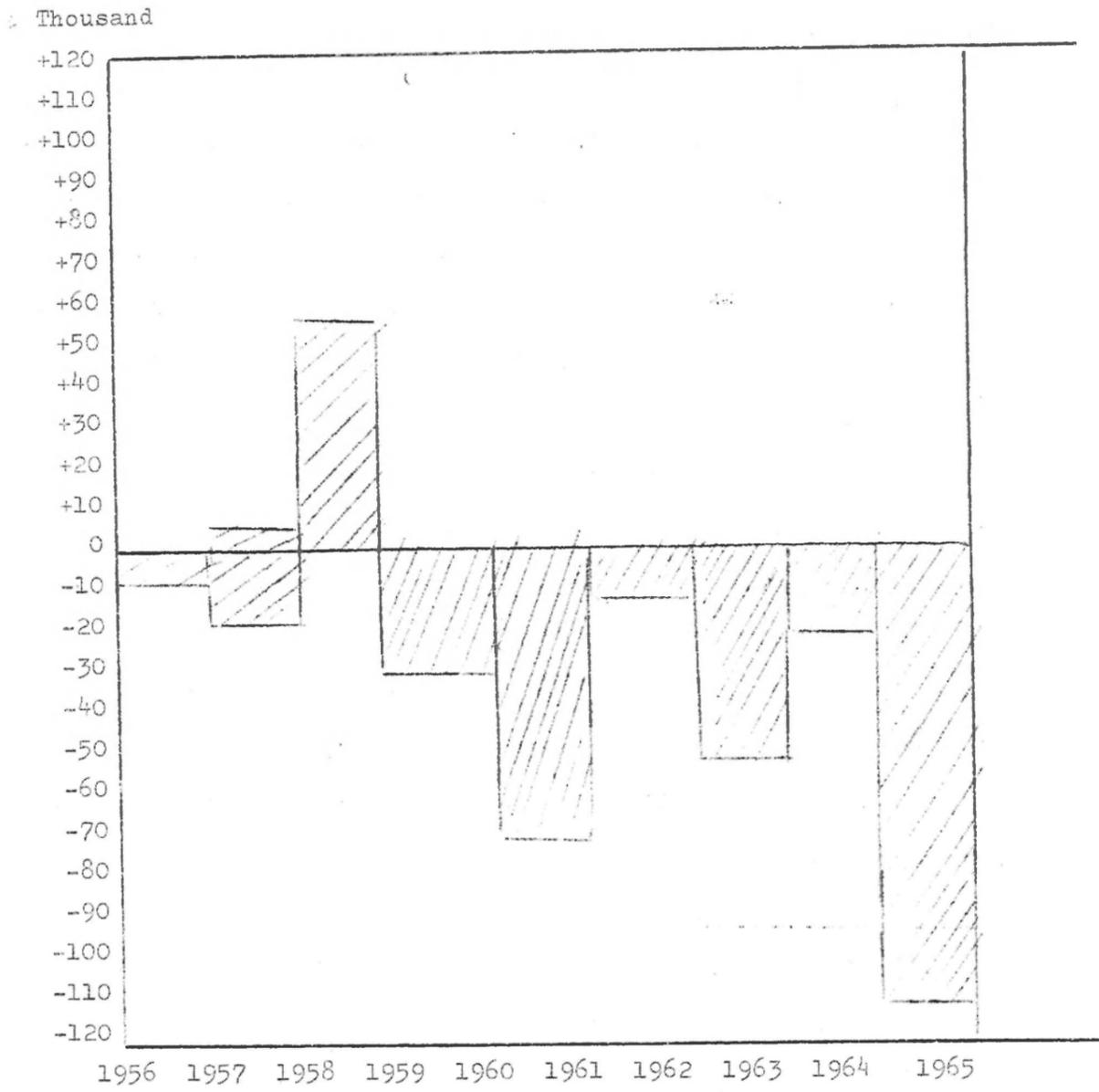
Board (and, one must suppose, from similar semi-autonomous agencies such as the Harbours and Railways Administration) and subsequently from the public through the sale of government stocks and bonds (absorbed by the public and the banking system) and Treasury bills (absorbed almost totally by the Banking system and, principally, the Bank of Ghana). The impact which these methods of borrowing had upon the country's banking system (and by implication upon the economy in general) can be best seen, perhaps, by reference to Table 12 which shows not only that credit extended to the public expanded most dramatically during the period, but also that credit extended by the Banking system to the Government expanded at an even greater rate: in addition to which, the net balance of foreign exchange of the total banking system had by 1965 become negative.

No picture of Ghana's economic performance between 1957 and 1966 would be complete, however, without some brief discussion of its balance of payments position during these years. This now becomes our next task.

#### BALANCE OF PAYMENTS

Ghana's visible balance of Trade between 1956 and 1965 is indicated in Chart 2. From this chart it can be seen that in all years except 1957/58 -1959, Ghana had an adverse balance in visible trade on current account. This adverse merchandise balance resulted, principally it is suggested, from two main sources. First, a decline in the country's receipts of foreign exchange from the sale of cocoa in world markets where the world price per ton dropped from a high of 845 in 1957/58 to a low of 333 in current prices in 1964/65. And, second, from the continuously rising total import bill, particularly for equipment, machinery and general spare-parts, necessitated by the capital - intensive industrialization programme and mechanised agriculture

Chart 2  
BALANCE OF VISIBLE TRADE



Source: Economic Survey: 1965 (Accra: Central Bureau of Statistics).  
Chart 4, p. 32.

Table 12

## CONSOLIDATED BALANCE SHEET OF THE BANKING SYSTEM

in c, '000

End of period figures	ASSETS			NET BALANCE			LIABILITIES		
	By Bank of Ghana	CREDIT TO THE PUBLIC	Total	CREDIT TO GOVERNMENT	FOREIGN EXCHANGE	Total	With Bank-	Total	
Period	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1958	-	21,706	21,706	-5,880	-4,345	-10,225	74,568	34,502	109,070
1959	-	25,356	35,556	-5,232	-5,002	-10,233	104,112	25,918	130,030
1960	-	47,659	47,659	-4,524	4,126	-	129,192	15,502	144,694
1961	-	65,167	65,167	8,448	11,011	19,459	108,830	7,375	116,206
1962	-	73,338	73,328	22,411	28,663	51,074	115,022	-5,582	109,440
1963	54,800	100,207	135,007	14,182	35,113	42,295	85,284	-14,443	70,841
1964	11,359	103,274	184,533	51,674	81,552	133,226	66,041	-9,257	56,784
1965	60,730	150,488	211,208	130,807	75,439	206,246	847	-21,523	-20,676

Capital and other accounts	LIABILITIES			
	Total	Less Liquid Deposits	Money Supply	
(10)	(11)	(12)	(13)	
1958	24,595	14,146	22,438	122,710
1959	8,959	164,312	27,183	137,129
1960	600	192,554	31,363	161,191
1961	7,150	207,982	32,947	175,178
1962	4,520	238,279	42,415	195,864
1963	5,234	260,376	53,165	207,211
1964	2,210	376,754	86,644	290,110
1965	-18,955	377,822	89,155	288,667

Source: Economic Survey: 1965 (Accra: Central Bureau of Statistics), Table X111, p.123.

established in Ghana by the Central Government after 1961/62. The remainder, and a large portion at that, of the deficits on current account originated in negative net invisibles which rose from 44.6 million in 1957 to 291.0 million in 1965. Besides continuously rising negative net investment income - surely the best indication of the manner in which Ghana drew down its reserve balances - from 14.4 million to 227.0 million, these negative net invisibles included (1) rising private transfers (an indication perhaps of profit repatriation) from 5.3 million in 1957 to 215 million in 1965, (2) net declines in travel balances and (3) a continuously increasing negative balance on freight and merchandise insurance. All of which attests, it can be supposed, to a Ghana which after 1957, and particularly after 1965 when its exchange reserves were totally depleted, was (1) beginning to live beyond its means, (2) continuously faced with heavy expenditures for intermediary products to keep its newly developed industrial (and partly perhaps its agricultural) base running but not running sufficiently well, it must be added, to enable it to substitute any resultant savings toward payment for these intermediary product imports, (3) faced with an ever increasing burden to repay capital and interest on suppliers' credits previously extended and (4) in general, favoured by a malaise of debt which the country's productivity in traditional areas (admittedly, partially as a result of the capricious nature of world cocoa markets) was not able to sustain.

The manner in which Ghana's balance on current and capital account deteriorated, is detailed in Table 13 which shows, most interestingly, that although current deficits in all years save 1958 (when there was a surplus) were financed partially out of changes in private and public

Table 13

	<u>BALANCE OF PAYMENTS, 1957/65</u>			
	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
<u>Current Account</u>				
Exports f.o.b.	233.9	257.0	271.2	286.0
Imports f.o.b.	-213.8	-187.4	-256.3	-298.3
Trade balance	10.1	69.6	14.9	-12.3
Freight and merchandises insurance	n.a.	-20.9	-22.1	-27.4
Other transportation	n.a.	-2.9	1.0	-4.6
Travel	n.a.	-6.2	-6.7	-11.3
Investment income				
Receipts	12.5	12.5	12.0	10.6
Payments	-14.4	-15.6	-15.8	-23.8
Other services	n.a.	-1.2	.2	-12.5
Private transfers	-5.3	-5.3	-4.3	-10.0
Public transfers	-1.4	-.7	-1.0	-1.5
Net invisibles	-44.6	-40.3	-36.7	-80.7
Total Current Account	-34.5	29.3	-21.8	-93.0
<u>Capital Accounts</u> (1)				
Private Capital	-8.6	-8.6	-7.9	4.5
Public capital	31.1	-3.8	-9.6	28.7
Volta River Authority				
Suppliers' credit				
Bilateral balances				
Errors and omissions	2.6	6.4	-3.0	-20.0
Sub total	25.1	-6.0	-20.5	13.2
Change of reserves	7.4	-23.3	42.3	79.8
Total Capital Account	34.5	-29.3	21.8	93.0

Source: Bank of Ghana: Central Bureau of statistics, Accra.

1. Balance of payments statistics have recently undergone a series should only be used as rough indicators.

(Million)

<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
285.1	274.1	263.0	275.5	275.3
<u>-329.8</u>	<u>-265.9</u>	<u>-288.7</u>	<u>-275.6</u>	<u>-374.9</u>
-44.7	8.2	-25.7	-.1	-99.6
-30.5	-25.9	-26.6	-17.0	-24.6
-7.0	-7.4	-3.6	-10.4	-9.3
-12.2	-11.3	-5.0	-7.7	-9.3
8.6	7.2	7.0	5.1	3.8
-21.8	-19.2	-28.6	-20.4	-27.0
-4.3	-5.7	-10.3	-13.7	-13.3
-10.8	-11.8	-14.6	-17.2	-12.4
-2.2	-.2	-2.2	-1.8	1.1
-80.2	-74.3	-83.9	-83.1	-91.0
-124.9	-66.1	-109.6	-83.2	-190.6
-13.2	18.0	17.4	26.0	73.6
3.3	39.5	31.9	43.1	71.6
		19.5	17.7	16.7
naa:-----		8.2	21.8	25.2
		4.2	3.6	29.7
-3.8	-6.7	-7.5	-8.6	8.3
-13.7	50.8	41.8	61.1	153.5
138.6	15.3	67.8	22.1	37.1
124.9	66.1	109.6	83.2	190.6

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of improvements, e.g., capital account data before 1963

capital, for the most part, these deficits were handled through drawings against past reserves which, in total, diminished by some \$413.4 million.

Within the context of Ghana's balance of payments position 1957-1966, it is interesting to speculate what might have happened had there not been a coup and thus, no new government to suspend, and later reschedule all payments on medium and long term suppliers' credits. While information in this area is not as detailed perhaps as one might hope, such information as is available<sup>3</sup> supports the contention that the result would have been catastrophic for by 1966 Ghana had, as is indicated in Table 14, assumed repayment obligations under suppliers' credits from 1966 of at least \$419 million: \$384 million of which was in repayment of principal and \$55 million of which was in the form of interest payments.

The projected repayments obligations as of 1966 are interesting in two main respects. First, had it been possible to make repayments as and when specified and for amounts committed and assuming that Ghana's receipts on current account did not differ substantially in pattern from the years 1957-1966 then between 1967 (say) and 1977, repayments on past suppliers' credits (i.e., servicing of existing suppliers' credit debts) would have absorbed approximately 25 percent of total exchange receipts in 1967,

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<sup>3</sup>I am very much indebted to Mr. Mireku of the Bank of Ghana especially, as well as the Bank's Research staff, who provided me with detailed breakdowns of Ghana known debt, total-amortization and interest payments on suppliers' credits as of November 1966. The charts Mr. Mireku supplied indicated payments on principal and interest for Western and Eastern countries through 1980. These were used in the preparation of Table 15.

Table 14

KNOWN FOREIGN CURRENCY OBLIGATIONS UNDER SUPPLIERS' CREDITS

TOTAL REPAYMENTS 1966 -1980

U.S.dollars equivalent.(1)

		<u>WESTERN COUNTRIES</u>	<u>EASTERN COUNTRIES</u>	<u>TOTAL</u>
Arrears up to	P	3,204,810	-	3,204,810
31-12-65	I	639,483	-	639,483
Arrears during	P	11,971,495	1,656,376	13,627,871
Jan.-May,1966.	I	3,295,720	237,784	3,533,504
1966	P	27,977,426	4,206,451	32,183,877
June-Dec.	I	5,723,384	655,309	6,378,693
1967	P	56,483,826	10,203,939	66,687,765
	I	11,017,188	1,544,863	12,562,051
1968	P	55,487,353	11,484,012	66,971,365
	I	9,043,431	1,523,768	10,567,199
1969	P	45,463,294	9,997,895	55,461,189
	I	6,491,805	1,186,533	7,678,338
1970	P	39,376,103	8,723,780	48,099,883
	I	4,736,818	965,879	5,702,697
1971	P	29,554,565	8,060,586	37,615,151
	I	2,992,796	694,484	3,687,280
1972	P	13,877,077	7,125,182	21,002,259
	I	1,633,212	480,328	2,113,540
1973	P	9,167,110	5,158,300	14,325,410
	I	958,311	324,013	1,282,324
1974	P	6,846,198	3,035,012	9,881,210
	I	481,563	228,004	709,567
1975	P	2,484,151	2,828,291	5,312,442
	I	162,607	171,399	334,006
1976	P	1,009,680	2,676,270	3,685,950
	I	57,934	115,766	173,700
1977	P	233,800	2,327,822	2,561,622
	I	7,014	63,938	70,952
1978	P	-	1,650,983	1,650,983
	I	-	23,615	23,615
1979	P	-	659,036	659,036
	I	-	-	-
1980	P	-	659,047	659,047
	I	-	-	-
TOTAL	P	303,136,888	80,452,982	383,589,870
	II	47,241,266	8,215,683	55,456,949

Source: Bank of Ghana. Private Information.

1. Original data in Ghana £ has been changed to U.S. dollars at rate of exchange £G.1=U.S.\$2.8.

14 percent in 1968, 10 percent in 1969, 16 percent in 1970 and corresponding increments until 1977 by which time the debt burden on this account would have been reduced to the still not insignificant amount of approximately 1 percent to total receipts. Second, if in addition to repayments contracted under suppliers' credits, Ghana's other loan repayments - which by 1966 amounted to approximately \$125-\$150 million - had been repaid during the same period (or had even a portion of these been repaid during this time) then the servicing of the total of past debts would have absorbed a correspondingly higher percentage of the country's total exchange reserves, perhaps, as high, for example, as 6 or 7 percent in 1968 and 4-5 percent in 1977. Furthermore, since Ghana's exchange reserves had been depleted by 1966 all these payments, it must be assumed, would have had to come from current receipts or from additional foreign borrowings, which situation would place any government in a very difficult position since not only had imports been allowed to expand rapidly between 1957 and 1966, but it is unlikely that the trend could have been much reverted between 1967 and 1977 for the simple reason that much of the expansion of imports had been in the form of supplies of raw materials or spare parts all of which were necessary for the operation of the industries set up under the suppliers' credits. Consequently, by committing itself to the use of suppliers' credit financing of industrialization, the Government between 1957-66 not only committed itself to a heavy burden of future debt but unwittingly, perhaps, simultaneously committed itself to a higher total import bill which given its exchange earnings could not, it is to be speculated, be maintained.

One final point in the above context which deserves

brief comment at this stage is that not only did the Ghana Government commit itself to an unrealistically high debt-service burden but that, through the methods it used to finance its industrialization, it bought its industries at a very high price, much higher perhaps than might have been necessary. This is so because over the ten years 1967-1977 the Government agreed to pay approximately \$47 million out in interest to Western suppliers and \$8 million in interest to Eastern suppliers. A little simple arithmetic soon shows that, in other words, the government agreed to pay effective rates of 16 percent and 10 percent respectively for its money; not it can be argued, a particularly low rate, nor, it might be added, one which conformed to the nominal 8 1/2 percent - 5 percent rates mentioned in most protocols and contracts when these were signed in 1961/62.<sup>4</sup>

#### EMPLOYMENT AND WAGES<sup>5</sup>

No review of the indicators of economic performance in Ghana between 1957 and 1966 would be complete without some brief mention being made of employment and wage trends

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<sup>4</sup>The difference between stated and effective interest rate in this context is most confusing. The stated annual interest rate, for example, on several Eastern Bloc credits was 7 1/2 percent to be repaid over 10 years. The effective total interest cost of these loans to Ghana, however, was approximately \$8 million on a debt of approximately \$80 million which on a percentage basis works out at 10 percent. Similarly, stated interest rates on most Western suppliers' credits contracts ranged from 4-5 percent again, however, effective total interest costs were approximately \$48 million on a debt of approximately \$300+ million or approximately 16 percent. In part this discrepancy can be explained by the simple fact that interest rates were based (1) on the total cost of the project and not it appears on the declining balance yet (2) interest costs were carried at an annual average rate rather than cumulatively totalled.

<sup>5</sup>Data on employment in Ghana during the period is not as complete or as detailed as perhaps might be wished. This arises from the fact that (1) much employment is of a temporary nature and hence not recorded (stewards, itinerant farmers etc.) (2) there is much disguised unemployment among owner-occupiers of small farms or lands (3) there is trend

Table 15

GHANA: RECORDED EMPLOYMENT, 1957-1966 (1)

	P U B L I C S E C T O R					
	1957-1960	1961	1962	1963	1964	1965
Agriculture, Forestry, Fishing	n.a.	41.4	37.7	40.2	44.2	47.9
Mining and Quarrying	n.a.	14.2	14.5	14.8	12.3	12.7
Manufacturing	n.a.	4.4	4.6	5.6	7.3	6.3
Construction	n.a.	36.9	39.0	39.3	44.4	42.6
Electricity, water, sanitation	n.a.	15.4	15.4	14.9	14.4	14.0
Commerce		2.5	4.2	5.5	6.8	6.5
Transport, Storage, and Comm- -unications	n.a.	24.5	27.4	27.3	20.8	24.1
Services	n.a.	<u>72.4</u>	<u>78.4</u>	<u>97.6</u>	<u>97.6</u>	<u>100.6</u>
TOTAL:		211.8	221.3	245.7	247.8	254.7

Source: Economic Survey (Central Bureau of Statistics: Accra) various issues.  
 (1) Employment in establishments employing more than 10 persons.

Table 15  
GHANA: RECORDED EMPLOYMENT.

P R I V A T E S E C T O R					
1957-1960	1961	1962	1963	1964	1965
n.a.	6.5	5.3	5.8	6.3	4.2
n.a.	14.5	14.0	14.9	14.9	13.2
n.a.	24.0	23.0	25.0	26.9	24.0
n.a.	26.4	21.2	18.9	19.9	18.5
n.a.	0.3	0.3	-	-	-
n.a.	35.2	29.0	30.0	37.0	25.9
n.a.	9.0	4.3	5.3	5.9	4.3
n.a.	<u>21.5</u>	<u>20.8</u>	<u>23.0</u>	<u>21.0</u>	<u>16.8</u>
	138.1	199.9	123.0	131.9	106.9

1957-1966<sup>(1)</sup> (Cont.)

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T O T A L

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1957-1960	1961	1962	1963	1964	1965
n.a.	48.0	42.2	46.0	50.5	52.1
n.a.	28.5	28.6	29.7	27.2	25.9
n.a.	29.3	27.7	31.4	34.2	30.3
n.a.	63.3	63.2	58.3	64.3	61.1
n.a.	15.7	15.7	14.9	14.4	14.0
n.a.	37.7	31.9	34.7	43.8	32.4
n.a.	33.5	31.7	32.6	26.7	28.4
n.a.	<u>93.9</u>	<u>99.2</u>	<u>120.7</u>	<u>118.6</u>	<u>117.4</u>
	356.2	341.2	368.7	379.7	361.6

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during the period. Such data as does exist in this area records employment over time only for establishments with more than 10 employees and details of this are presented in Table 15.<sup>6</sup> Some details of total employment were given, however, in the 1960 Census<sup>7</sup> and, as of that time, indications were that out of a total population of 6.7 million approximately 3.5 million were employed out of a potential labour force of 3.7 million (i.e. those people 15 years of age and over). Since 1960, however, no further attempts have been made to collect further data on total employment.

From Table 15 it will be observed that, although total employment among reporting establishments appears to have increased rapidly since 1961 all this increase took place within the public sector, private sector employment showing a significant decline from 138,000 in 1961 to 106,900 in 1965. The increase in public sector employment was, perhaps, a natural consequence of the growing activities of the Central Government in agriculture, infrastructure, and industry, however, it is questionable how much of this employment increase fulfilled a direct demand for manpower and how much merely resulted from overstaffing and direct

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to categorise employment within the shifting peasant agriculture section and (4) the resources of the government for collecting such data, in the past, have been most limited. Such employment data as has been collected by the Central Bureau of Statistics results from returns sent in by enterprises employing more than ten persons. These returns are not always complete.

<sup>6</sup> These data go back, in the form presented, only as far as 1961 when, after the 1960 Census, a reporting system to set up under which 4000 firms sent data on employment to the Central Bureau of Statistics.

<sup>7</sup> See Census 1960 and Economic Survey 1961 (Accra: Government Printing Office).

Table 16

CHANGES IN AVERAGE MONTHLY EARNINGS PER EMPLOYEE IN  
ESTABLISHMENTS EMPLOYING MORE THAN 10 PERSONS 1963-1965

	All Sectors		Private Enterprise		Public Authorities	
	% Change 1964/63	% Change 1965/65	% Change 1964/63	% Change 1965/64	% Change 1964/63	% Change 1965/64
ALL INDUSTRIES	-1.5	+2.1	-1.1	3.4	-1.1	1.7
Agriculture	-1.2	3.1	7.9	4.6	-2.8	2.1
Mining	-	6.9	-3.0	11.0	2.9	-6.7
Manufacturing	-1.9	9.4	-1.9	9.5	-2.2	8.8
Construction	-4.4	1.9	-5.1	3.0	-4.5	1.4
Electricity	1.7	6.4	-	-	1.7	6.4
Commerce	-	-6.4	4.9	-8.2	-19.9	1.9
Transport	2.6	+0.5	2.5	5.3	3.0	-8.5
Services	-	-0.4	1.7	1.9	0.2	-7.0

Source: Economic Survey:1965 (Accra:Central Bureau of Statistics), Table 75,p.100.

attempts on the Government's part to create employment for its loyal supporters.<sup>28</sup>

Information on wage rates (in a primarily non-wage oriented economy) is even more scanty than it is on employment. Such as it is, it is presented in Table 16, and as can be seen from the Table, no significant trend appears to have developed (as did with employment) between 1963-65.

IN CONCLUSION: from what has been said so far it must by now have become quite obvious that Ghana's economic performance between 1957-1966 in no way matched up with the expectations held for it by the Central Government and, particularly, those officials held responsible for the preparation of the country's various development plans. It should by now also have become obvious that the main causes for Ghana's poor performance were (1) that far too great a reliance, particularly after 1961, was placed upon industrialization, with the consequences that resources more usefully elsewhere in the economy were directed to this sector and (2) that the methods whereby Ghana financed its growing industrial base - again, particularly after 1960/61 - were inappropriate considering its ability to meet future payments.

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<sup>29</sup> It appears that there was, in fact, much overstaffing and consequently under-employment of personnel. The number of Ministries and Specialised agencies tripled between 1957-1966 and special attempts were made (through, for example, the Young Pioneers and Workers Brigade) to provide employment for the party faithful.

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