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Ghana's economic growth and welfare issues

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Abstract

Ghana has experienced massive economic growth performance in recent time which on the average has been higher than that of the sub-region. With such track record, many have monitored its effect on the livelihoods of Ghanaians. Available data indicates that growth of the economy helped the country to meet the Millennium Development Goal one of reducing poverty by half even before the turn of 2015. Following the commencement of the commercial production of oil, Ghana's economic growth has shifted from the agricultural sector to the service suggesting structural transformation has taken place. However, such a change has not promoted high and secure incomes and improved the livelihoods of Ghanaians since the manufacturing sector needed to absorb many workforce has seen a decline. There has also been some job increment but majority are vulnerable and find themselves in the informal sector. Unemployment among people with secondary and tertiary level qualification remains quite high. Although poverty has seen a massive decline, there still remains a high level of income inequality. Health outcomes have however improved. To sustain and benefit more from economic growth in the future, it is important for policy makers to improve the quality of the labour force. This requires the need for policy makers and government to make adequate preparation for the many SHS students who have benefitted from the free SHS policy and the first batch is expected to graduate next academic year to be absorbed into the next level of the educational ladder. Also, a stronger collaboration between academia and industry in the country is needed to train students to meet the needs of industries. The manufacturing sector needs to be given a big boost to help promote sustainable employment. Government of Ghana's commitment to improve the health needs of Ghanaians should be strengthened.

Keywords: Economic growth; Poverty; Unemployment; Health outcomes

JEL Codes: I00, I130, J21, J30, O49

1. INTRODUCTION

Economic growth has been the desire of all governments and policymakers. Traditionally, economic development was associated with higher economic growth rate. For this reason many policymakers and governments garnered strategies to promote growth of their economies. However, during the 1950s and 1960s when many developing countries met their growth targets but did not translate into better living conditions for the citizens, the thoughts of Development Economists shifted from an emphasis on growth to poverty reduction and higher employment (Todaro and Smith 2009). Thus, growth without development is not the best. However, economic growth has the potential to enhance the livelihoods of

the citizens. For this reasons policymakers are not just to only strategize for higher economic growth rate but to also ensure there is a positive impact of the growth on the living conditions of the citizens.

Ghana’s economic history began with some Asian countries like Singapore and South Korea. However, after more than 60 years, these Asian countries have grown their economies more than Ghana and the citizens have reaped the benefit thereof. After subscribing to the World Bank’s Structural Adjustment Program (SAP)/ Economic Recovery Programme (ERP) in the early 1980s, Ghana’s economic growth has performed well. The question then is, is Ghana’s growth following the pattern of what many developing countries experienced in the 50s and 60s or not?

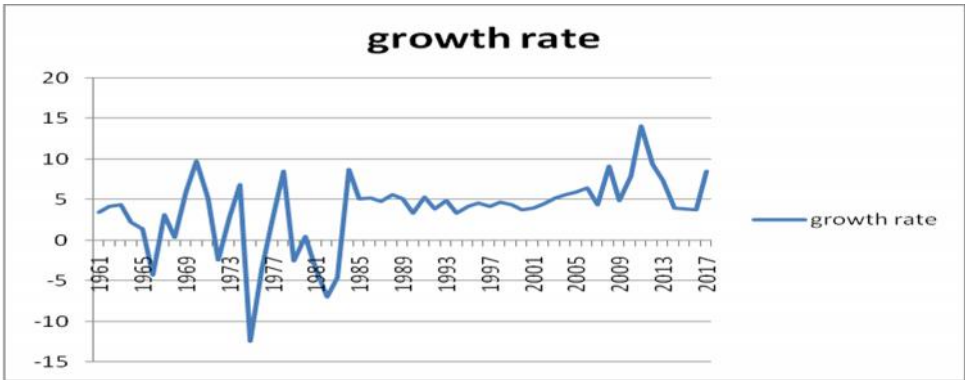
In the sections that follow from here, a trend analysis of Ghana’s growth performance is done in sections 2. Section 3, focuses on economic growth and welfare of Ghanaians (employment, unemployment, poverty and income distribution and health outcomes), and in section 4, some suggested solutions are proffered based on the discussion.

2. TREND OF GHANA’S ECONOMIC GROWTH

2.1 First three decades after independence

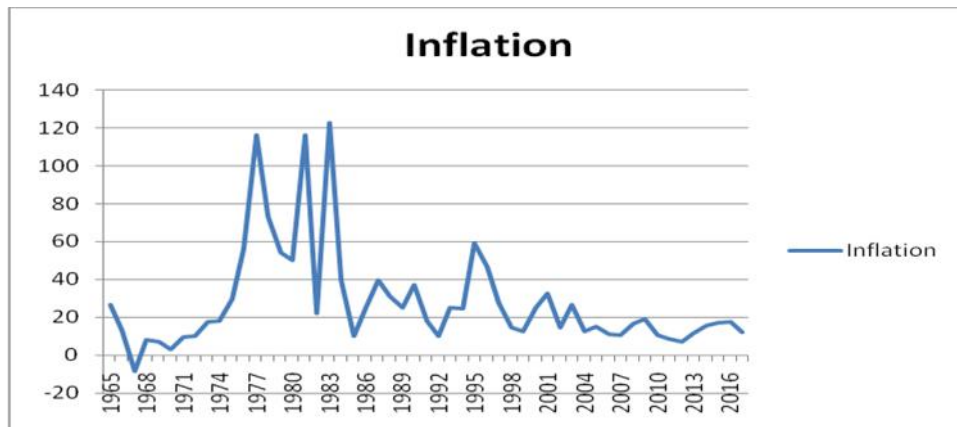
After gaining independence in 1957, the growth performance of Ghana has been an interesting one as described by many economic watchers. Available data from the World Bank (2018) indicate that the growth performance between 1960 and early 1980s was not a delight with sharp fluctuations in growth rate recording negative rates in 1966, 1972, 1975, 1976 and 1981-1983.

After the first two decades of independence, the best growth performance was in 1970 with 9.7% growth rate and the worse was 1975 with -12.4%. These figures translate into an average growth rate of 1.64% between 1961 and 1987. The reasons behind such an abysmal performance within these years include the frequent military takeovers, severe drought, the repatriation of Ghanaian from Nigeria following an aliens compliance order in that country (Armah, 2013) and other external shocks including oil-price shock (Alagidede et al., 2013).



Source: World Bank 2018

It is this growth performance and other economic indicators in the 1980s such as the high rate of inflation that made Ghana go to the IMF for assistance. Inflation moved from the single digits recorded between 1968 and 1971; and the double digits from 1972 to 1976 and reached 116.45% in 1977 and 116.5% in 1981 and the highest for the country 122.8% in 1983. The World Bank's sponsored Structural Adjustment Program (SAP) adopted in the early 80s helped to turn the economic health of the country in a better shape.



Source: World Bank 2018

2.2 Post SAP/ERP: 1984-2000

From mid-1983 to 1991, the new military government sought assistance from the IMF and the World Bank for a major structural adjustment programme (SAP) and Economic Recovery Programme (ERP) which sought to liberalise the economy and increase investment (IEA, 2013). Right after the implementation of the SAP/ERP, the data from World Bank shows that economic growth rate saw a positive turn from -4.5% in 1983 to 8.64% the following year. Since then, the country's growth rate was quite stable without any stumble.

Between 1984-2000 Ghana saw an average growth rate of 4.75% with the lowest 3.3% recorded in 1993. Inflationary pressure also reduced from 122.8% in 1983 to 39.6% in 1984 and it recorded an average rate of 27.7% for the 1984-2000 year period. By this time the economy had been opened up to international trade, the financial sector had been deepened and private investment had been encouraged.

2.3 Post SAP/ERP: 2001 -Date

The impressive performance of the country's growth continued after a successful transfer of political power from one party to another in 2001. The data from the World Bank reveals that from the year 2001, growth rate saw an upward trend from 4.0% to 6.3% in 2006. Although it took a nose dive the following year it bounced back strongly from 4.3% to 9.1% in 2008 and reached a record high of 14.04% in 2011

when Ghana commenced the commercial production of oil making the country one of the fastest growing economies in the world at the time. The average growth rate between 2001 and 2017 is 6.3%.

3. ECONOMIC GROWTH AND WELFARE OF GHANAIS

Economists have been concerned with the welfare implication of economic growth. Higher economic growth in an economy suggests that the economy has become richer and therefore expected to translate into an improvement in the living conditions of the citizens. However, that has not always been the case. The reason is that in many countries economic growth is not associated with equitable income distribution, improved quality environment and provision of basic amenities.

According to Aryeetey and Baah-Boateng (2016), since 2007, Ghana's economy has generally experienced faster growth relative to Sub-Saharan Africa (SSA). The authors reveal that "on average, the Ghanaian economy grew annually by 5.8 per cent compared to 3.7 per cent in SSA in 13 of the years between 1991 and 2013." It is this development that helped pushed Ghana to the status of a lower middle-income country as per capita income has increased from US\$ 823 in 1990 to close to US\$ 1900 in 2017 (World Bank, 2018). However, there appears to be a slow translation of this development to the betterment of Ghanaians as depicted by the areas of sectoral growth, employment, poverty and inequality.

3.1 Sectoral growth

For a very long time, the agricultural sector was the largest share of Ghana's economy. However, after two decades of independence, the share of agriculture began to see downward trend. Its number one position has now been taken over by the service sector followed by the industrial sector. For instance, as shown in Table 1, between 1978-88 agriculture contributed more than 53% of Ghana's GDP and by 2000-2010 it had decreased to 32.94%. The downward trend of the agricultural sector has continued and as at 2017 it only contributed about 17.02% of Ghana's GDP. Meanwhile the service sector has increased from 26.05% to 37.25% and finally to 52.15% within the same period. The industrial sector has remained the second largest sector of the economy since independence, although its contribution to GDP has been reducing from 2012 when it recorded 32.28%. As at 2017, its share of GDP has reduced to 23.6% (Table 1). Some experts have attributed the remarkable performance of the service sector to international trade, hospitality, telecommunication and financial subsectors, with support from liberalization of activities which have led to an increased private sector participation in the sub-sector (Alagidede et al., 2013). The performance of the industrial sector until 2011 was driven mainly by the mining and the construction sub-sectors.

The commercial production of oil in 2011 boosted the performance of the sector. The poor performance of the agricultural sector can also be attributed to numerous reasons including bush fires, logging and other human activities, limited support from extension services, and the absence of adequate irrigation facilities which accounts for the heavy reliance on rain (Alagidede et al., 2013). The sectoral growth performance suggests Ghana has witnessed a structural transformation since the dominance of the agricultural sector has been taken over by the service sector. Structural transformation as indicated by the UN-Habitat (2016) is "the transition of an economy from low productivity and labour intensive economic activities to higher productivity and skill intensive activities. The driving force behind structural transformation is the change of productivity in the modern sector, which is dominated by manufacturing

and services.” However, the shift from agricultural to service led economy in the country has not been in tandem with features of an economy that has witnessed structural change thereby making it difficult for one to confidently say there has been economic transformation in Ghana. The quality of economic growth has therefore been questioned.

Table 1: Sectoral share of GDP and growth in Ghana, 1978-2017

	Sectoral share of GDP							
SECTOR	78-88	89-99	00-10	11	12	14	16	2017
Agriculture	53.72	40.38	32.94	23.66	22.13	20.54	17.66	17.02
Industry	28.14	37.96	38.21	9.28	32.28	29.92	26.85	23.68
<i>Mining and oil</i>				9.5	8.0	4.2		
<i>Manufacturing</i>	7.91	9.26	8.40	6.42	5.14	4.54	4.16	
<i>Construction</i>				8.9	11.5	12.7	13.7	
Service	26.05	30.87	37.25	45.84	47.58	49.62	53.14	52.15
	Sectoral growth rate							
	08	09	10	11	12	14	16	17
Agriculture	7.40	7.22	5.27	0.85	5.68	2.78	8.36	
Industry	15.07	4.48	6.95	41.64	6.64	-0.34	16.67	
<i>Mining and oil</i>	2.4	6.8	18.8	206.5	16.4	3.2	-7.6	
<i>Manufacturing</i>	3.70	-1.31	7.60	17.00	1.95	-0.50	2.21	2.71
Service	7.58	3.59	9.96	9.08	12.06	5.53	5.98	

Source: World Bank, 2018 and Ghana Statistical Service (GSS), 2018

3.2 Economic growth and employment trend among various sectors

Employment growth in Ghana has generally been slower than economic growth, raising concerns about the quality of Ghana’s growth. Employment levels in Ghana rose from 5.77 million in 1992 to 12.03 million in 2013, representing a 3.7 per cent average annual employment growth compared to 3.0 per cent in SSA (ILO 2014). However, economic growth rate within the same period was 5.74%.

Table 2 shows the employment situation for the various sectors over the years. Like their contributions to economic growth, the share of agriculture to employment has lost its dominance giving way to the service sector while the industrial sector remains relatively stable between 14-16%. As at 1991, agriculture provided 56.01% of total employment but this has gradually reduced to 40.64% as at 2017. The service sector has also increased its percentage of the total employment from 29.54% to 45.24% within the same period. The shift in employment from agriculture to services may not reflect a structural and productive transformation since the rising services activities mostly occur in the informal sector. This is reflected in the large share of informal sector employment of over 80% (World Bank, 2018).

Table 2: Employment by various sectors

SECTORS	1991	1996	2001	2006	2011	2016	2017
Agriculture	56.014	53.675	49.936	45.075	41.396	41.24	40.649
Industry	14.446	15.563	15.944	15.861	15.196	14.031	14.109
Service	29.541	30.762	34.12	39.063	43.408	44.729	45.242
	1992	1999	2000	2006	2010	2013	2015
Public	8.4	6.2	7.2	5.7	6.4	5.9	-
Private	6.1	7.5	8.9	7.0	7.4	6.1	-
Informal	85.5	86.1	83.9	87.3	86.2	88.0	83.2

Source: World Bank 2018; Aryeetey and Baah-Boateng (2016)

The informal economy is the part of an economy that is not taxed, monitored by any form of government, or included in any gross national product (GNP). Table 2 shows that the employment within the informal sector has fluctuated but not gone below 80% and it appears to have generally increased. With the over 80% of Ghana's workforce working in the informal sector, it implies the majority earns less income, has irregular income and does not have access to basic protections and services of the state.

Further, such businesses lack the potential for growth, trapping employees in menial jobs indefinitely. The high level of employment in the informal sector therefore is a clear indication that growth in Ghana has not been able to absorb workers in the formal sector yet. The welfare implications of such unfortunate incidence can be understood from the findings of Anuwa-Amrah (2015) study on Ghana's urban informal economy. The author found from the survey among other things that:

- almost 70% of employers do not offer written short term or long term employment contracts,
- 77.6% of employees either do not have any employment contract at all or have only verbal contracts. As a result, in the event of a breach of their fundamental rights, workers are unable to exercise or defend them in court,
- majority of employers (55.6%) do not contribute to any pension scheme,
- on the loss to the State, less than a quarter paid personal income tax, depriving the State of some tax revenue.

Many reasons have been espoused by Anuwa-Amrah (2015) to explain why informal economy remains high in the country including the following:

- the informal nature of the Ghanaian societies permeates through all aspects of the lives,
- the retrenchment in the public sector during the SAP/ERP led many unemployed to seek solace in private informal sector,
- rapid migration of many unskilled or semi-skilled labour into the urban areas,

- the preference for the payment of goods and services by physical cash rather than credit because of the generally low levels of education, suppresses traces of evidence of transaction within the financial systems, thereby, avoiding capture in national statistics
- high inflation and energy crises, and
- the difficulties one has to go through to formalize a business is deterrent enough: i.e. the regulatory regimes, administrative procedures and fees and financial requirements are burdensome.

Other reasons one may cite include:

- the inability of the private formal sector to expand in order to absorb many job seekers. Such situation can be attributed to the high cost of utilities, the cost of raw materials, depreciation of the local currency and high interest rate.
- the mismatch between the skills of graduates and that which is needed by industries could explain the low level of employment in the formal sector, and
- the heavy reliance on unprocessed agricultural products for exports and the slow pace of industrialization.

3.3 Growth and unemployment distribution among the youth and educational level

Unemployment appears to be low in Ghana because of the high degree of informality and vulnerable employment (Aryeetey and Baah-Boateng 2016). Thus, according to Baah-Boateng (2015), the high degree of informality tends to mask the problem of unemployment, given the large number of discouraged workers who are jobless and available for work but fail to make the effort to seek one (Aryeetey and Baah-Boateng 2016).

Table 3 reveals that about 2.8% of the labour force in Ghana was unemployed in 1984. This figure shot to 10.36% in 2000. The subsequent years have generally seen a reduction in the rate to 2.15% in 2015. Unfortunately, the unemployment again increased to 2.35% as at 2017 (World Bank, 2018). Youth unemployment was almost twice the size of the total unemployment rate from 2006 to 2013. However, by 2015 it was about 8 times the size of total unemployment rate.

Table 3: Unemployment rate

Unemployment rate	2006	2011	2013	2015	2017
All (15+)	3.6	4.47	2.17	2.15	2.35
Youth (15-24)	9.45	11.16	4.62	15.17	-
Level of education					
Basic education	6.09		2.80	4.84	-
Secondary +	14.38		5.91	15.23	-
Tertiary	4.87		3.90	5.89	-

Source: World Bank, 2018

Based on the level of education, those with basic education has the lowest unemployment rate followed by those with tertiary education and the highest fall among those with secondary education. Again, the unemployment rate among those with education is higher than the total rate. Baah-Boateng (2015) argues that the low unemployment rate among basic education holders is as a result of their limited access to

formal sector jobs which makes them easily join the informal sector which easily absorbs them for survival. On the other hand, those with secondary education and beyond, desire to be in formal sector which has low capacity to absorb the many graduates who are churned out every now and then. As a result, the rate will be higher than those with basic education. It is this situation which has rendered many graduates from the tertiary institutions unemployed. Although the Youth Employment Policy and the National Builders Corps have been introduced to reduce the burden of unemployment in the country, they leave much to be desired.

3.4 Growth and Poverty Reduction

One way of determining the level of poverty of in an economy is to look at the share of vulnerable employment. Ghana's growth performance has had some inverse association with vulnerable employment. With increasing economic growth, vulnerable employment has reduced from 81.4% in 1991 to 60.4% in 2017. This is a clear indication there has been some increase in productive and gainful jobs in Ghana's economy. As good news as this may be, the pace has been slow and the reasons for such a slow reduction in the vulnerable unemployment could be attributed to the "discriminatory or poorly enforced labour laws and obfuscated employment relations" (International Labour Office 2010). In addition, the reasons outlined earlier to explain the prevalence of informal economy in Ghana can equally be behind the snail pace at which vulnerable employment is reduced. One cannot also rule out the quality of human resource the country has generated over the years.

This slow pace therefore implies that there is still a greater proportion of the Ghanaian workers who are poor since vulnerable employment is an indicator of poor workers. Such workers are often self-employed and unpaid family workers. Also, according to the ILO (2010), such workers are "less likely to have formal work arrangements, and are therefore more likely to lack decent working conditions, adequate social security and 'voice' through effective representation by trade unions and similar organizations. characterized by inadequate earnings, low productivity and difficult conditions of work that undermine workers' fundamental rights."

Another issue is that Ghana's economic performance was instrumental in the attainment of the then Millennium Development Goal (MDG) target of halving extreme poverty before 2015. That notwithstanding, Ghana is still battling against inequality. Poverty is still endemic in the regions in the north, and the depth of poverty also remains a challenge even in urban areas although it is higher in the rural areas (National Development Planning Committee [NDPC] 2015). The possible reason is that Ghana has failed to properly decentralize its growth and developmental process. Development has taken place mostly in the urban towns mainly the national capital and the other regional capitals. This neglect of the other towns in the developmental process makes it difficult for them to see job expansion to absorb the qualified workforce. The neglect of the rural areas makes the situation worse.

3.5 Growth and health outcomes

The growth performance appears to have had enormous impact on the health outcomes of Ghanaians. The increasing economic growth has followed the same path of a number of health indicators. Thus, the

health outcomes in the country has seen a general improvement. While mortality rates have reduced for Under 5 mortality, infant mortality, neonatal mortality and adult mortality, life expectancy has increased.

From Table 4 it is seen that life expectancy has increased from 52.575 in 1981 to 62.74 in 2017. Within the same period, under 5 mortality has reduced from 164.2 to 51.8 and infant mortality has seen a massive reduction from 99.9 to 37.2. Adult female mortality rate, (per 1,000) [Adult female mortality rate, (per 1,000)] has also reduced from 294.503[347.807] in 1981 to 221.279[261.074] in 2017.

Table 4: Health Indicators 1971-2017

Health indicators	1971	1981	1991	2001	2011	2017
Life expectancy at birth, total (years)	49.623	52.575	57.16	57.14	61.25	62.74
Under 5 mortality (per 1,000 live births)	200.6	164.2	122.1	95.9	68.9	51.8
Infant mortality (per 1,000 live births)	119.4	99.9	79.3	62.2	46.9	37.2
Neonatal mortality (per 1,000 live births)	59	50.6	41.1	35.5	30	25.1
Adult female mortality rate, (per 1,000)	324.418	294.503	251.233	280.563	238.22	221.279
Adult male mortality rate, (per 1,000)	377.505	347.807	300.616	391.641	275.953	261.074

Source: World Bank, 2018

These outcomes can be attributed to increasing amount of resources government over the years has committed to meet the health needs of the citizens. This has translated into the expansion of health institutions in the country. However, Ghana's health sector is confronted with the problem of inadequate health centers, inadequate medical officers, high patient-doctor ratio, high nurse-patient ratio and financial barrier among others (see Adua et al., 2017). It is hoped that these health outcomes can get better as the years go by and when these challenges are dealt with.

4. GOING FORWARD

To sustain Ghana's economic growth and for it to benefit the citizens, the following issues need to taken into consideration:

- Ghana needs to ensure growth of the economy is matched with the quality of labour force. In this case, government needs to make preparation for the many SHS students who have benefitted from the free SHS policy and are expected to graduate beginning next year to be absorbed into the next level of the educational ladder.
- Collaboration between academia and industry in the country should be deepened. This will help universities and other tertiary institutions get to know the special skills needed for them to train their students accordingly.

- Government need to resource universities and other tertiary institutions with the needed infrastructure in order to make them more and effective functional.
- Value addition to the nation's raw materials should be aggressively pursued. The One-District-One-Factory if well implemented would surely be helpful in reducing vulnerable jobs and income inequality.
- Barriers to the formalization process of business should be addressed urgently.
- Government of Ghana's commitment to improve the health needs of Ghanaians should be strengthened. Attention needs to be paid to the National Health Insurance Scheme which seems to be performing under expectation.
- As the economy grows it is important for the government to set aside resource devoted to the training and development of health professionals especially doctors to help improve the health status of Ghanaians.

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