Growth, Investment and Employment in Ghana

Working Paper No. 80

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To stimulate discussion and obtain comments

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Abstract: The fairly decent growth performance that made Ghana the model of economic reform in sub-Saharan Africa has been somewhat dented by the increasing rate of unemployment and underemployment. Policies narrowly focused on achieving macroeconomic stability and accelerated growth without adequate employment consideration. Growth appears to have emanated from mining. Sectors with high labour absorption rate such as manufacturing, tourism, agriculture and exports have not attracted the necessary investment to enhance growth and employment performance. The Ghanaian economy therefore requires a thorough review of the current national development policies to generate growth that would promote job creation and improve incomes for the realisation of its poverty reduction goals. For employment-friendly growth to be realised, various initiatives are suggested.


Résumé: La croissance économique relativement décente du Ghana, qui a fait du pays un modèle en matière de réformes économiques en Afrique sub-saharienne, a été quelque peu gâchée par l’accroissement du taux de chômage et du sous-emploi. Les politiques ont été essentiellement axées sur la stabilité macro-économique et l’accélération de la croissance économique sans considération adéquate pour l’emploi. La croissance semble avoir trouvé son origine dans le secteur minier. Les secteurs à haute absorption de main d’œuvre tels que les manufactures, le tourisme, l’agriculture, ou les exportations n’ont pas attiré suffisamment d’investissements permettant d’accélérer la croissance et l’emploi. L’économie du Ghana nécessite donc une analyse en profondeur des politiques nationales de développement en vue de générer une croissance créatrice d’emplois et permettant d’améliorer les revenus pour réaliser les objectifs de réduction de la pauvreté. Pour qu’une croissance riche en emplois soit réalisée, plusieurs initiatives sont suggérées.

Classification JEL: E24, J21, J31, J48.

Resumen: El crecimiento económico relativamente decente que ha hecho de Ghana un modelo de reforma económica en el África Sub-Sahariano, se ha visto afectado por el aumento en la tasa de desempleo y por la existencia de subempleo. Las políticas han estado especialmente enfocadas en lograr estabilidad macro económica y en acelerar el crecimiento sin considerar adecuadamente el empleo. El crecimiento económico parece haber encontrado su origen en el sector minero. Los sectores que emplean a una gran cantidad de mano de obra, tales como el sector manufacturero, turismo, agricultura y exportaciones no han atraído el suficiente nivel de inversión para acelerar el crecimiento económico y al mismo tiempo fomentar el empleo. La economía de Ghana por tanto requiere un análisis en profundidad de las políticas nacionales actuales de desarrollo que puedan promover la creación de empleo y aumentar el nivel de ingreso para así alcanzar sus metas de reducción de la pobreza. Para que un crecimiento sustantivo del empleo tome lugar, varias iniciativas son sugeridas.

The Policy Integration Department

The Policy Integration Department pursues the ILO’s decent work and fair globalization agenda from an integrated perspective. Its central objective is to further greater policy coherence and the integration of social and economic policies at the international and national level. To this end, it works closely with other multilateral agencies and national actors such as Governments, trade unions, employers’ federations, NGO’s and universities. Through its policy-oriented research agenda, it explores complementarities and interdependencies between employment, working conditions, social protection, social dialogue and labour standards. Current work is organized around four thematic areas that call for greater policy coherence: Fair globalization, the global poor and informality, macro-economic policies for decent work, and emerging issues. Working papers disseminate research findings at an early stage in order to obtain comments, and are thus preliminary documents.

Director: Duncan Campbell
Research Advisor: Rolph van der Hoeven

This paper was initiated by Rolph van der Hoeven and Malte Lübker. It argues that reasonable economic growth in Ghana has not yet resulted in structural change and adequate employment. The authors argue for more coherent economic and social policies to foster employment growth.
Growth, Investment and Employment in Ghana

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Growth, Investment and Employment in Ghana

1. Introduction

The current high rates of unemployment and underemployment in Ghana have raised concerns about the appropriateness of recent and current macroeconomic policies within the context of a broad development agenda. Current economic policies may be traced back to World Bank and IMF-sponsored economic reforms which have emphasised restrictive macroeconomic policies and a more open trade environment with a greater private sector role in direct productive activity. The reforms were meant to restore macroeconomic stability, provide an incentive framework to enhance efficiency, encourage savings and investment, create an enabling environment to facilitate private sector development, and improve the efficiency of public sector resource management (World Bank, 1995).

Since the introduction of economic reforms in 1983, Ghana has experienced a considerable measure of fiscal discipline, a fair degree of domestic price and real effective exchange rate stability and a reasonable economic growth by sub-Saharan African standards. Private domestic and foreign direct investment has shown a considerable improvement, peaking at 16.7 percent and 3.3 percent of GDP in 2001 and 2000 respectively. However, the social problems including unemployment and underemployment, high poverty incidence, and widening income inequality that followed the reform caused many critics to argue that the social and structural implications of the reforms were ignored during the design and implementation process. This suggests that getting fiscal, monetary and financial, and trade policies right does not necessarily translate into employment-oriented growth necessary for poverty reduction. These policies need to be complemented with measures that would free the economy from the structural bottlenecks that impede the growth of private sector. Weak public institutions and corruption have been one of the major factors that impede growth by increasing transaction costs (Aryeetey, 2004).

The introduction of the Ghana Poverty Reduction Strategy (GPRS) in 2000 was intended to address deteriorating social conditions especially the high incidence of poverty and the widening income distribution that emerged with the reforms. Employment generation was considered as the core objective of the policy framework with more emphasis on public investment in education, health and infrastructure. However, the apparent over-concentration of effort in achieving macroeconomic stability through restrictive fiscal and monetary policies within an over-liberalised external trade system continues to constrain the expansion of the private sector, including the employment-friendly sectors. The difficulty faced by local enterprises in competing effectively in the globalised trade environment has contributed to dislocations and job losses in the labour market. The growing unemployment and underemployment in the midst of seemingly consistent robust growth performance has raised doubts about whether employment has been a significant factor behind growth.

This paper seeks to examine the formulation of national policies including trade, exchange rate, monetary, fiscal and labour market policies and how they have contributed to growth and employment generation. The paper is presented in five sections. A brief overview of the economy follows this introduction in section two. The third section reviews economic policies and outcomes while growth and employment responses to the national policies are catalogued in section four. This is followed by remarks to conclude the paper.
2. Overview of the economy

Following the economic downturn of the 1970s and early 1980s, growth has been fairly strong over the past two decades. Essentially, this development is attributed to the IMF/World Bank sponsored reforms, adopted with the support of the rest of the donor community. Growth has averaged 4.8 percent annually since reforms began, with the second half of the 1980s witnessing higher growth compared to the 1990s. Aryeetey and Tarp (2000) attribute the upturn in growth during the 1980s to the expansion of public investments that were financed largely through aid flows.

![Growth Rates of Real GDP & per capita Real GDP, 1984-2004 (%)](image)

*Figure 1: Growth Rates of Real GDP & per capita Real GDP, 1984-2004 (%)*

The quite positive growth performance in response to the reform has persisted since 1984 with relatively little variance particularly in the early 1990s. Despite a strong desire to achieve faster growth rates this has not been easy. The inability of growth to move beyond 6.0 percent per annum has been linked to the absence of structural transformation (Aryeetey and Fosu, 2004) and these are driven by the fact that macroeconomic policies have not been anchored in comprehensive and credible longer term development frameworks. As shown in Figure 1, per capita GDP growth closely tracks that of GDP suggesting a seemingly stable growth of population. The slow rate of per capita income growth in the economy hovering below the 4 percent mark after 1984 is largely attributed to low productivity (O’Connell and Ndulu, 2000). Growth since 2001 has been rising slowly as a result of the recovery of agricultural production and general improvement in economic management, particularly in the area of fiscal and monetary policies (AfDB/OECD, 2003). However, this is not regarded as sufficient to drive the economy towards the achievement of the Millennium Development Goals (MDGs) (Aryeetey and McKay 2005).

**Structure of Growth**

The pattern of the economic performance over the years suggests little evidence of structural transformation. The economy still depends largely on agriculture accounting for at least 36 percent of GDP and 50 percent of employment. As suggested by table 1, the structure of the economy since 1984 has only seen a marginal decline in agriculture dominance in favour of service and industry owing to sluggish growth of agriculture. The growth of the agriculture sector until 2003 continuously lagged behind the other sectors, largely due to inefficient farming practices, poor access to credit and profitable markets, and reliance on rain-fed agricultural production. The poor performance of the sector has led to the loss of its position as the major foreign exchange earner through cocoa exports since 1994.
Table 1: Sectoral Distribution of Real GDP, % (Period Averages)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>AGRICULTURE</td>
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<td>39.8</td>
<td>36.5</td>
<td>36.5</td>
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<tr>
<td>INDUSTRY*</td>
<td>22.6</td>
<td>24.6</td>
<td>24.9</td>
<td>25.2</td>
<td>24.9</td>
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<tr>
<td>Manufacturing</td>
<td>9.7</td>
<td>9.6</td>
<td>9.1</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>SERVICE</td>
<td>23.2</td>
<td>25.9</td>
<td>27.9</td>
<td>29.2</td>
<td>29.9</td>
</tr>
</tbody>
</table>


* Note: Industry figures include Manufacturing.

The marginal expansion of industry share in GDP is largely due to growth in mining and construction (Aryeetey, 2004) while manufacturing has declined gradually but consistently (table 1). The rise in the share of services from 23 percent in the 1980s to 30 percent over the 2001-04 period emanated largely from wholesale, retail, restaurants and hotels. ISSER (1997) has described the shift towards services as an indication of the direction of the new private investment following the removal of policy bottlenecks. It is seen as temporary and no indication of steady structural change.

Employment and Wages

Reliable labour market data are difficult to come by in Ghana and this continues to hamper effective discussions of the labour market effects of economic policies. Available data however points to the changing composition in overall employment over the past two decades in line with the pattern of sectoral distribution of production. Agriculture continues to employ a majority of the Ghanaian workforce although its share in employment fell from 61 percent to 51 percent between 1984 and 2000 (table 2). The gain in employment by the services sector of about 7 percentage points was driven largely by the trade sector where women are the dominant force. The industrial sector witnessed a marginal improvement in employment with a 3.5 percentage point increase in its employment share between 1984 and 2000. Similarly, expansion of manufacturing employment has been slow with a share in the range of 10.9 percent and 11.5 percent of total employment between 1984 and 2000.
### Table 2: Employment Indicators 1984–2000

<table>
<thead>
<tr>
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<tr>
<td>Population (in millions)</td>
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<td>14.9</td>
<td>18.3</td>
<td>18.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Labour Force (‘000)</td>
<td>5,580</td>
<td>6,020</td>
<td>8,632</td>
<td>8,210</td>
<td>8,292</td>
</tr>
<tr>
<td>Lab Force Participation Rate, age 7+, (%) –</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>82.5</td>
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<td>79.9</td>
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<tr>
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<td>83.5</td>
<td>74.2</td>
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<td>81.4</td>
<td>76.7</td>
</tr>
<tr>
<td>Female</td>
<td>81.6</td>
<td>77.7</td>
<td>---</td>
<td>78.9</td>
<td>72.7</td>
</tr>
<tr>
<td>Total Employment (‘000)</td>
<td>5,422</td>
<td>5,770</td>
<td>---</td>
<td>7,550</td>
<td>7,453</td>
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<td>Agriculture (share in %)</td>
<td>61.1</td>
<td>62.2</td>
<td>58.0</td>
<td>55.0</td>
<td>50.7</td>
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<tr>
<td>Industry (share in %)</td>
<td>12.8</td>
<td>10.0</td>
<td>12.9</td>
<td>14.0</td>
<td>16.3</td>
</tr>
<tr>
<td>Manufacturing (share in %)</td>
<td>10.9</td>
<td>8.2</td>
<td>10.2</td>
<td>11.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Service (share in %)</td>
<td>26.1</td>
<td>27.8</td>
<td>29.1</td>
<td>31.0</td>
<td>33.0</td>
</tr>
<tr>
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<td>9.1</td>
</tr>
<tr>
<td>Private Formal</td>
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<td>4.8</td>
<td>---</td>
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<td>8.0</td>
</tr>
<tr>
<td>Informal*</td>
<td>83.8</td>
<td>88.4</td>
<td>---</td>
<td>86.3</td>
<td>80.3</td>
</tr>
<tr>
<td>Unemployment Rate (%) –</td>
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<td>4.7</td>
<td>---</td>
<td>8.2</td>
<td>10.4</td>
</tr>
<tr>
<td>National</td>
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<td>3.7</td>
<td>---</td>
<td>7.5</td>
<td>10.1</td>
</tr>
<tr>
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<td>2.5</td>
<td>5.4</td>
<td>---</td>
<td>8.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Female</td>
<td>---</td>
<td>17.1</td>
<td>---</td>
<td>15.9</td>
<td>16.7</td>
</tr>
<tr>
<td>Youth</td>
<td>6.0</td>
<td>11.3</td>
<td>---</td>
<td>13.4</td>
<td>---</td>
</tr>
<tr>
<td>Urban</td>
<td>1.4</td>
<td>1.7</td>
<td>---</td>
<td>5.5</td>
<td>---</td>
</tr>
<tr>
<td>Rural</td>
<td>---</td>
<td>8.0</td>
<td>---</td>
<td>13.9</td>
<td>---</td>
</tr>
<tr>
<td>Underemployment Rate (%) –</td>
<td>2.8</td>
<td>4.7</td>
<td>---</td>
<td>8.2</td>
<td>10.4</td>
</tr>
<tr>
<td>National</td>
<td>---</td>
<td>9.0</td>
<td>---</td>
<td>14.2</td>
<td>---</td>
</tr>
<tr>
<td>Male</td>
<td>---</td>
<td>7.0</td>
<td>---</td>
<td>13.7</td>
<td>---</td>
</tr>
<tr>
<td>Female</td>
<td>---</td>
<td>6.0</td>
<td>---</td>
<td>11.3</td>
<td>---</td>
</tr>
<tr>
<td>Urban</td>
<td>---</td>
<td>8.0</td>
<td>---</td>
<td>15.2</td>
<td>---</td>
</tr>
</tbody>
</table>

* comprises self employment (agriculture & non-agriculture) and no main job.


The strength of agriculture in employment continues to shrink beyond the year 2000 in line with the pattern of labour demand which is skewed in favour of services and industry. Evidence shows that in 2005, out of 8,067 job vacancies advertised through the *Daily Graphic* (the leading and most widely circulated print media in Ghana), the service sector accounted for 83.4 percent followed by industry with 16 percent (Bank of Ghana, 2006). Agriculture which recorded the least percentage growth of 4.1 percent during the same year compared with other sectors accounted for less than 1 percent of advertised jobs. The demand for employment in the industrial sector was driven by manufacturing which accounted for 61 percent of advertised jobs in the sector. Demand for services employment was dominated by education which recorded 1,300 advertised job vacancies representing about 20 percent of the total vacancies reported in the sector. This may be explained by the surge in the number of private educational institutions and the establishment of more public schools at the basic and secondary levels as a result of the government’s determination to promote education in the country. The establishment of a number of private universities has largely contributed to the demand for lecturers and other categories of staff as reflected in the reported vacancies.
The significance of formal sector employment prior to the introduction of economic reforms declined in favour of the informal sector, especially in the second half of 1980s and the early 1990s. The loss of employment in the formal sector occurred in the public sector largely as a consequence of public sector downsizing. Public sector employment dropped significantly by about 60 percent compared with a 67 percent decline in formal private sector between 1987 and 1991, leading to a 53 percent drop altogether in formal sector employment (Baah-Boateng and Turkson, 2005). The public sector share in total employment fell by 3.4 percentage points between 1984 and 1992 (table 2). At the same time, the share of informal sector employment rose from 83.8 percent to 88.4 percent. The smooth transfer of labour to the informal sector was due to the flexible skill requirements of the sector. The declining trend in public sector employment continued in the 1990s as noted by Buckley (2005) with a 3 percentage points loss of public sector employment.

The total labour force participation rate of the country dropped from 82.5 percent in 1984 to 74.7 percent in 2000 with the rate being slightly higher for males than females (table 2). This is an indication of the growing number of economically inactive population and increasing dependency ratio of the economy. One obvious change the labour market has witnessed over the last two decades is the rising incidence of open unemployment and underemployment. Despite the fairly decent rates, the growth performance of the economy has not been sufficient to meet the employment needs of the rapidly expanding labour force thereby contributing to the creation of a state of joblessness. The labour force in Ghana saw an annual average growth of 3.04 percent annually between 1984 and 2000 compared with less than 5 percent real GDP growth over the same period with labour intensive activities such as manufacturing and agriculture hardly recording any significant expansion in employment. Consequently, from a level of 2.8 percent in 1984, the adult unemployment rate rose consistently to peak at 10.4 percent in 2000 with females and youth witnessing relatively higher rates (table 2). Similarly, the rate of underemployment rose from 8 percent to 14 percent between 1992 and 1998.

The rising unemployment and underemployment rates against a falling labour force participation rate are partly explained by the movement of people from the labour force into non-economic activity; particularly as many people move on to seek higher education. Estimates from the GLSS indicate that the school attendance rate for the population aged between 6 and 25 years rose from 58.8 percent in 1992 to 68.8 percent in 1999. School enrolment at all levels has also increased over the past two decades resulting in the improvement of the literacy rate and level of educational attainment, especially at the post secondary level. The attempt by people facing the risk of unemployment to seek more education is largely a consequence of the fact that higher education is publicly funded. As Boateng (2000) notes they enrol in educational institutions where they are provided free boarding and lodging and in some cases subsidised loans or allowances. Generally, these observed structural problems of the Ghanaian economy could be blamed on the apparent failure of the reform to pay adequate attention to the social dimension of structural adjustment.

Generally, earnings are low as evident in the high poverty incidence in the economy which stood at 39.5 percent as of 1999 (GLSS 4). Estimates from GLSS 3 & 4 indicate a decline in real hourly earnings in the 1990s. A declining trend in real average monthly earnings characterised the Ghanaian economy between 1981 and 1985 on account of low nominal earnings and relatively high inflation (figure 2). It however surged in 1986 as a result of over 100 percent increase in nominal average monthly earnings in that year. Real earnings improved marginally over the second half of the 1980s. Until 2003, when the minimum wage reached a level equivalent to $1.04 at official exchange rate, it has failed to reach a dollar mark since 1986. Generally, rising price level has led to persistent decline in real incomes of workers and the poor many of whom receive incomes that are fixed such as producer prices of agricultural produce and daily wages in the unionised sector. It is observed from figure 2 that real minimum wage declined during most part of the 1980s
and 1990s as the minimum wage index lied below the CPI during the period. Since 2000, real minimum wage has improved due largely to the relative price stability achieved since 2000.

Figure 2: Real Average Monthly Earnings, Minimum Wage and Inflation Trends, 1981-2005

Min. Wage Index (1995=100), CPI (1995=100). The graph has been drawn to logarithmic scale.

Source: Computed by the Authors from the 2006 Budget Statement & Quarterly Digest of Statistics (GSS).

The minimum wage, which is determined by the Tripartite Committee, appears to have lost its practical relevance for most workers, especially those in the formal sector since the bulk of industries pay well above the minimum wage. Arguably, it only provides a guide to salary adjustment particularly in the public sector. Many workers in the informal sector however earn below the minimum wage largely due to the weak compliance by employers in the sector. The legislative backing to the minimum wage which was abolished in early 1990s has been a major cause of the weak compliance in the informal sector. Given that over 80 percent of the workforce is engaged in informal activity where minimum wage hardly covers, explains why over one-third of Ghanaians live below the national poverty line.1

Invariably, low wages relative to a high cost of living have been blamed for the apparent low productivity in the economy as it provides little incentive to work. The compressed wage structure, particularly in the public sector, coupled with inefficient supervision offered little reward to greater skills and productivity. While the productivity of Ghanaian workers is generally low, it is matched by a low wage packet (Collier et al., 1998) which could be derived from a rapid labour force growth and unemployment in the midst of inconsistent production growth.

Savings and Investment

Low savings and investment have characterised the Ghanaian economy, apparently due to low incomes. The level of domestic savings has been generally low with gross domestic savings averaging 6.8 percent of GDP annually since 1982 compared with 16.2 percent of

1 The upper poverty line is €900,000 per annum (in 1998-99) equivalent to $383.63 at official exchange rate.
gross fixed capital formation in GDP. Although there has been some stable and upsurge of domestic savings since 1999 after years of volatility, the rate of growth of domestic savings has been quite slow to boost investment needed for accelerated growth. Aryeetey (2004) contends that in spite of the significant increase in gross fixed capital formation since 1983, much higher levels are needed to drive up growth.

The shortfall in domestic saving relative to investment has been made up by inflows from abroad. The introduction of economic reform enhanced the level of business confidence of foreign investors and donors in the economy leading to more resource inflows into the country. For instance, total inflows into Ghana from Official Development Assistance (ODA) which are mostly linked to some FDI projects accounted for over 50 percent of capital formation as against an average of 34 percent for sub-Saharan Africa. Inflows from ODA as a percentage of GDP which stood at 3.5 percent in 1982 improved continuously to reach 13.7 percent in 1989 before declining to average 9.7 percent in the 1990s (table 3). Foreign Direct Investment (FDI) has also improved considerably particularly in the 1990s from a very low level. As reported in table 3, net inflows of FDI as a percentage of GDP which averaged 0.15 in the 1980s rose to average 1.73 in the 1990s. The apparent improvement in foreign investment could be linked to the policy and regulations governing FDI, including the revision of investment codes that were carried out with the view to making Ghana an attractive destination for investment.

Inflation, Interest Rates and Exchange Rates

The state-led and administrative control system of economic management which gave way to market oriented economic system after the birth of the economic reform helped in reversing the problem of high rate of inflation, overvalued exchange rate and negative interest rates trends that characterised the Ghanaian economy prior to the reforms in 1983. From a high of 122.8 percent in 1983, the annual average rate of inflation fell below the 40 percent mark until 1995 when it rose again to 60 percent before dropping steadily to reach 11.2 percent in 2004 (table 3). This has been the outcome of the more restrictive monetary and fiscal policies which have sought to, among other things, address the persistent fiscal deficits which characterised public financial management in the 1970s and 1980s.

The gains made in respect of inflation, coupled with the financial sector liberalisation, which saw the abolishing of interest rate controls have resulted in positive real interest rates, particularly since the mid-1990s. However, nominal interest rates have remained very high averaging 33.5 percent between 1990 and 2000 in response to the financial liberalisation which freed interest rates from governmental control. Average lending rates have been very high particularly in the second half of the 1990s, constraining credit flow to the private sector. Nominal bank lending rates have however taken a downward trend since 2000 in response to a downward inflationary trend. The liberalization of the exchange rate market has also seen a rapid depreciation of the domestic currency relative to the dollar from ₋35.30/1$ in 1984 to ₋9,004.60/$1 in 2005. The resulting decline in real effective exchange rate index since 1984 has contributed to the apparent increased competitiveness of exports in the country.

External Trade and Payments

The external trade sector has not experienced any significant changes in structure since the inception of economic reforms. The composition of exports continues to be dominated by cocoa, minerals and timber with limited manufactured goods. While the share of external trade in GDP has increased, the composition has not changed. The share of exports in GDP which saw a significant decline in the 1970s and early 1980s picked up strongly after the
reform. Oduro (2000) associates the dismal export performance prior to the reform to a sharp decline and disinvestment in the cocoa sector and a strong anti-export bias in policies.

However, as a result of more liberal trade and exchange rate deregulation, coupled with government effort to encourage non-traditional exports and the rehabilitation of cocoa and gold production, the share of exports in GDP rose significantly from 8 percent in 1984 to 49 percent in 2000 before declining to 38.1 percent in 2004 (table 3). Imports also responded to the liberal trade policy with an increase in import share of GDP from 10.8 percent to 67.5 percent over the same period before declining to 50.8 percent in 2004 (table 3). Consequently, the current account balance has been in deficit throughout the period with the exception of 2003 when a surplus was achieved. The upsurge of import and export shares in GDP in the reform era suggests that the outward oriented trade policy of the reform has caused an expansion of the degree of trade openness.
Table 3: Macroeconomic Indicators for Ghana, 1984–2005

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (annual %)</th>
<th>Agriculture (annual % growth)</th>
<th>Industry (annual % growth)</th>
<th>Manufacturing (annual % growth)</th>
<th>Services (annual % growth)</th>
<th>GDP per capita constant 2000 US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>-6.9</td>
<td>-5.4</td>
<td>-16.9</td>
<td>-20.5</td>
<td>-5.0</td>
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<td>-12.0</td>
<td>-11.1</td>
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3. Review of economic policies and outcomes

The year 1983 witnessed a drastic shift in policy direction of Ghana from direct state control of resource allocation in an inward-looking trade environment to a liberal and open economic system with a more reduced state involvement in economic activity. The move was at the instance of the Breton Woods institutions with support from Western donor communities to save the economy from total collapse. Before then, the economy was characterised by negative growth, low savings and investment, persistent fiscal deficits financed through money printing resulting in high inflationary pressures, deteriorating terms of trade prompted by overvaluation of the cedi, culminating in current account and balance of payments deficits.

The new economic paradigm was meant to reverse the economic decline of the country which has persisted over a long time. It entailed a shift in economic focus of public investment towards a more private involvement in economic activity, including foreign investment, and the replacement of administrative controls by market forces in resource allocation. The parameters of macroeconomic policy were drawn up with the conviction that higher growth required the realisation of macroeconomic stability and pursuance of structural adjustment programme (World Bank, 2001). Macroeconomic instruments such as fiscal, monetary, financial and trade reforms were critical in the framework, and were accordingly designed to achieve price stability, enhanced savings and investments, sustained economic growth and arrest structural imbalances in the economy.

Fiscal Policies

Since 1984, fiscal policy strategies have been directed at improving public savings and avoiding an inflationary spiral, as well as preventing possible crowding-out of the private sector. The reform measures required government effort to increase public saving and reduce its domestic borrowing requirements, with the view to releasing resources for use by the private sector. This largely involves expenditure controls and domestic resource mobilisation measures. The major fiscal instruments for expenditure entailed cost recovery measures, public sector wage restraints and abolishing of subsidies, divestiture of state owned enterprises, retrenchment of civil servants and other fiscal and aggregate demand restraint measures. Public investments focused mainly on rehabilitation of physical infrastructure to facilitate the operation and growth of the private sector. Measures to enhance revenue mobilisation involved the design and implementation of comprehensive tax reforms to ensure efficiency in tax collection, widening of the tax net and the introduction of new forms of taxes such as petroleum tax and Value Added Tax (VAT).

There has been a considerable improvement in the fiscal position of the country since 1984 with occasional downturns. Government revenue improved substantially from annual average of 8 percent of GDP over 1975-84 to 18 percent of GDP over 1995-2002 (World Bank, 2004). Public investment facilitated by inflows of external donor finance has also witnessed remarkable improvement. The improvement in government revenue was accompanied by a surge in public expenditure especially capital expenditure on infrastructure. Strong fiscal expenditure control measures coupled with improved government revenue particularly during the initial period of the reform accounted for the fiscal surplus recorded over the period 1986-91 as well and 1994 and 1995 (table 3). The improvement in fiscal balance over these periods resulted in a decline in public sector borrowing from the domestic banking system from 16 percent of GDP in 1983 to 7.3 percent in 1990 (IMF, 1994).
The re-emergence of large fiscal deficits in the 1990s ranging from a high of 8.6 percent of GDP in 1997 to 3.2 percent in 2004 (table 3) resulted from the inability of government to control growth of public sector wages and other forms of public expenditures as well as the slow growth of tax revenue. For example, the government wage bill rose by 39 percent as a result of a nominal 80 percent civil service wage increase in 1992, which was an election year (Aryeetey, Harrigan and Nissanke, 2000). The fiscal deficits of the 1990s contributed to an unstable macroeconomic environment. The increased borrowing from the central bank which resulted in rapid growth of money supply contributed to high inflation which hit the 58.5 percent mark in 1995. Above all, the inability to control the fiscal deficit has also resulted in increased crowding-out of the private sector. The average Treasury bill rate between 1993 and 2000 was 35.44 percent, which enabled the government to attract financial resources meant for the private sector from the banking sector. Indeed, the banking sector considers investment in government paper as a better option owing to the low risk and high yielding nature compared to private sector lending. Consequently, the continuous adoption of an open market approach at controlling the growth of money stock denies the private sector the needed resources. This may partly explain the weak response of private investment to the ERP (Younger, 1992; Aryeetey, 1994).

**Monetary Policies**

Monetary policy in the 1980s largely involved credit squeeze through IMF credit ceilings, selective credit controls, high reserve ratios, and steadily increasing administered interest rates in the country. The policy was targeted at curtailing the accelerated rate of inflation and the deteriorating level of foreign reserves. The restrictive monetary policy initiative was informed by the conviction that high inflation and balance of payments deficits are caused mainly by excessive money supply, such that controlling monetary expansion was deemed a sure way of managing domestic inflation and external payment disequilibrium. The policy of holding interest rate low with the view to promoting investment pushed real interest rate to the negative range in the 1980s due to the high rate of inflation over the period.²

The apparent financial repression that ensued necessitated the birth of financial sector reform that sought to deregulate the financial system and initiate various banking reforms to facilitate greater competition and efficiency in the money market. This saw a pragmatic move towards “freeing” interest rates by removing interest rate ceilings and adopting indirect instruments of monetary policy. The monetary and financial sector reforms did not only seek to encourage savings, investment and output but also targeted inflation. Inflation targeting is based on the principle that once price stability is achieved, nominal interest rate would decline to allow expansion of investment and growth. Thus, the policy of restoring a positive real interest rate was intended to accelerate the process of financial deepening (Aryeetey, 1994). Since 1990, the banking system in the country has been progressively liberalised and a stock market established.

The outcome of the monetary policy backed by financial sector reforms in the 1990s has been associated with a fair degree of price discipline and a more recent considerable degree of competition among banks. However, it has failed to improve the real “outcome” variables such as savings, investment, accelerated growth and employment. The expansion of gross domestic savings has been extremely slow and erratic particularly in the 1990s. Estimates from table 3 suggest that gross domestic savings increased marginally from an average of 5.3 percent of GDP in the 1980s to 7.6 percent in the 1990s and marginally up to 8.4 percent over 2000-04 period. This is against the backdrop of high nominal interest

² Cf. Gockel et al. (1997).
rates which has been kept above rate of inflation to produce positive real interest rates in most part of the 1990s.

Gross fixed capital formation has seen a considerable expansion, rising from 7 percent of GDP in 1984 to 27 percent in 2001. This has been accounted for largely by the expansion of public investment, given the poor response from the private sector. Private investment has been low, averaging 9.0 percent of GDP between 1984 and 2002 (table 3) due apparently to high lending rates driven by high inflationary pressures. Inflation has remained in the double digit range and coupled with rapid exchange rate depreciation, created uncertainty in the domestic economy thereby discouraging private investment. Growth of domestic credit to the private sector improved marginally from an average of 44 percent over the period 1985-94 to 49 percent over 1995-2002 but was not enough to substantially boost private investment (World Bank, 2004). In addition, the distribution has not favoured the productive and employment generating sectors of agriculture and manufacturing.

Trade and Exchange Rate Reforms

Trade liberalization policy has been pursued as part of the reform measures to open up the economy, improve the supply situation and allow exchange of goods, services and technology on the basis of comparative advantage. The inward looking-trade policy within a state-control economic environment contributed to economic recession prior to the economic reform. The use of direct controls to address a deteriorating balance of payments situation undermined the performance of manufacturing in the face of inadequate supply of imported raw materials. The oil crisis and falling price of cocoa and other major commodities on the international market plunged the economy into foreign exchange crisis. The overvaluation of exchange rate resulting from controlled exchange rate system within a highly inflationary environment worsened the external trade balance, exacerbated current account and overall balance of payments situation.

The key objectives of external trade reforms in the early stages of the reform were geared towards the restoration of incentives for exports, increase the overall availability of foreign exchange, and improve the foreign-exchange allocation mechanism and channel it into selected high priority areas (Republic of Ghana, 1983). The cocoa sector was central in the reform programme with the provision of incentives in the form of increased producer price to farmers. The expansion of non-traditional exports became an essential component of the broad strategy of addressing foreign exchange constraints of the economy.

The trade policy was initiated within the framework of a free floating exchange rate system. The shift in exchange rate regime was meant to restore international competitiveness, address external trade imbalances, and improve current account balance and balance of payments. It was expected to among others, alter the real effective exchange rate so as to improve the country’s external competitiveness and strengthen the incentive for export growth.

The trade and exchange rate reforms paid off in terms of improved export volume. As reported in table 3, total exports rose significantly from 8 percent of GDP in 1984 to 49 percent in 2000. Evidence suggests that cocoa exports improved substantially in the second half of 1980s such that volume indices of cocoa export improved from 59.1 in 1984 to 104.2 in 1990 before dropping to 92.4 four years later (Aryeetey et al., 2000). The nominal depreciation of the exchange rate accounted for the increase in the nominal cocoa producer price to farmers without jeopardising government revenue. Since 2001, cocoa production has expanded remarkably on account of the periodic increase in producer price of cocoa together with the mass spraying exercise of cocoa farms. Non-traditional exports also showed a positive sign with an improvement in its share of total export
from 3.1 percent in the mid 1980s to 9.7 percent in 1994 (Aryeetey et al, 2000). Mineral export also improved substantially and it was not surprising when in the mid 1990s gold overtook cocoa as the frontrunner in foreign exchange earnings. Manufacturing export has nonetheless been very weak and non competitive due to the high production cost on account of high lending rate, increased cost of imported raw materials resulting from rapid depreciation of the cedi and increasing transaction cost of doing business in the country.

The improved export volume has however been accompanied by a more than equal increase in import penetration such that total imports rose from 10.8 percent of GDP to 67.0 percent between 1984 and 2000. This, coupled with a falling world market price of cocoa resulted in unfavourable terms of trade and persistent and increasing current account deficits (table 3). The overall balance of payments however, improved substantially with surpluses recorded during greater part of the past two decades. This has been largely accounted for by the inflow of external resources to finance government projects.

The improved export performance could be linked to the decline in the real effective exchange rate after the reform which is an indication of increased international competitiveness of the country. The re-emergence of large fiscal deficits and the resulting inflationary pressures from the mid-1990s, together with inflows of external resources to finance public projects caused the appreciation of the real effective exchange rate. Essentially, the absence of structural transformation in the export sector over the past two decades in a liberalised external trade regime cast doubts on the country’s ability to compete effectively in the globalised market, and maintain an improved external payments position of the country.

**Investment Policies and Regulation**

The greater part of the pre-reform period witnessed little commitment of government to promote private investment. The government in the early 1960s found the private sector less capable of pushing the industrialisation agenda. In line with this belief and coupled with the socialist ideology of Nkrumah, compelled the government to undertake massive public investment during the period. Foreign private investment was low in spite of Capital Investment Act (Act 172) of 1963 which sought to encourage foreign investment. Various Decrees and Acts were also passed to promote private investment from both domestic and external sources, but still fell short of expectation. Apparently, Nkrumah’s perception of foreign investment as exploitative might have negated any effort to promote private investment from abroad.

Since 1983, the focus of investment policies has shifted towards promoting private investment as part of the reform measures which sought to reduce government involvement in direct productive activity. In line with this goal, series of initiatives have been pursued among which are:

Privatisation exercise as a measure of reducing government direct involvement in production. This involved divestiture, commercialisation of public utilities and services and creating an atmosphere conducive for private investment.

The establishment of the Ghana Investment Centre under the 1985 Investment Code (PNDCL 116) with the power to promote and regulate investments on behalf of the government.

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The enactment of GIPC Act of 1994 which brought into being the Ghana Investments Promotion Centre (GIPC) with the fundamental objective of encouraging and promoting both domestic and foreign investment.

The new mining code of 1983 which permits government to retain a 10 percent free share in any mining venture with the option of acquiring an additional 20 percent, which confers on it a managerial share.

The setting up of Ghana Free Zones Board in 1995 under the Free Zone Act of 1995 to further encourage investment into the Ghanaian economy.

The Ghana Trade and Investment Gateway project launched in 1999 to support the initiatives pursued to attract export-oriented investment into the economy.

The outcome of various policy initiatives towards the promotion of private investment and greater private sector involvement in economic activity chalked some marginal success. The privatisation exercise saw the divestiture of a number of SOEs, some of which have been transformed into successful enterprises. Evidence shows that over 3,000 jobs were created by a total of six divested companies (Baah-Boateng and Turkson, 2005). Nevertheless, others continue to struggle to lift their heads above waters while a number of divested enterprises have folded up.

Evidently, growth in private investment, particularly from domestic sources has been sluggish on account of low domestic savings. Estimates from table 3 suggest that gross private investment averaged 9.9 percent of GDP between 1990 and 2003 compared with gross public sector investment of 10.6 percent over the same period, an indication of a rather greater public sector involvement in economic activity. Marginal progress has also been recorded in the area of foreign investment particularly from 1993 when net FDI inflows climbed from under 1 percent of GDP to 2.1 percent and averaged 2.2 percent from then on (table 3). In spite of these improvements however, Ghana ranks 21st among African countries in terms of inflows although it is the 6th most attractive investment destination in Africa (UNCTAD, 2003). The modest and erratic increases in FDI flows compared to other countries in sub-Saharan Africa need not be seen as reflecting any particular policy deficiencies. Ghana’s policy reforms have been hailed as far more consistent than in other countries (World Bank 1994). The absence of FDI may be more linked to the productivity questions that have not been adequately addressed with slow improvements in human capital formation.

Mining benefited most from the inflows of foreign direct investment to the extent that investment in the sector improved remarkably between 1983 and 1992 with gold taking the lion’s share. This seems to confirm the common perception that FDI is largely driven by natural resources when it comes to FDI in sub-Saharan Africa (Asiedu, 2006).

**Labour Market Policies**

Employment policies entails deliberate move by government to influence the level of employment in general or to enhance access to jobs for the growing population. The inward-looking economic strategy within a state-led and controlled economic environment was aimed at greater employment and self-sustained growth. In this regard, a number of strategies were pursued. These include Ghanaianisation and Operation Feed Yourself (OFY) which saw protectionism reach the highest point under various policy instruments. These policy initiatives resulted in a dramatic increase in urban formal employment especially in the protected industries and in the public sector. Formal sector employment increased substantially from under 4 percent to over 20 percent of labour force between 1960 and 1980, as employment in the formal sector grew faster than the growth of the labour force (ISSER, 1995).
The stabilisation and structural adjustment brought a major shake-up in the labour market. The public sector retrenchment and privatisation exercise caused a reshuffle of labour from public to the informal sector with some of the retrenched workers becoming jobless. The government was later compelled to undertake policy interventions to minimize the negative employment implications of the exercise. Among these policy intervention was PAMSCAD which was initiated in 1988-89. It involved the establishment of community projects and employment generation for rural households in the northern regions, low-income unemployment and underemployed urban households, and retrenched workers. In addition, agricultural sector programme which focused on national food security, and employment and income generation in the rural areas through increased agricultural research and extension, small-holder credits and provision of other services was also initiated. The Alternative Employment Programme (AEP) which has been in existence since 2001 is one of the policy intervention to facilitate the placement of outplaced public servants who would be affected by the PSMRP exercise.4

In the mid 1990s, the government adopted a long-term economic framework called the Vision 2020 which built employment promotion considerations into all macroeconomic and production policies. This involved among others, the adoption of fiscal and monetary policies towards the realisation of stability in domestic prices, interest rates, exchange rates and wages. A review of the legal and regulatory framework to enhance employment creation especially in the informal sector was also critically considered. Training and retraining including technical, vocational and apprenticeship featured prominently in the plan design.

In the GPRS, employment generation was considered a key and was to emanate basically from economic growth through the adoption of labour intensive technology, agricultural modernisation, agro-processing and non-traditional export development among others. The poverty reduction framework recognises skills training and retraining as means of retooling labour market entrants to make them employable.

Vocational, technical and apprenticeship training as well as entrepreneurial training have also featured in annual budgets of the government as a way of reversing the growing incidence of youth and graduate unemployment in the economy. The effect of these policy initiatives has rather been quite disappointing given the rising incidence of unemployment and underemployment as well as streetism. The subsequent section delves into the employment effects of the employment policy initiatives.

One major labour market indicator which has direct implication for employment and standard of living of the country workforce is wages. The determination of wages in the country, particularly in the formal sector has been largely influenced by institutional factors. The wages and incomes policy of the country prior to the economic reforms was characterised by a centralised collective bargaining system which set the levels and structure of wages in the public service. Over the years, the minimum wage determined by the Tripartite Committee serves as a benchmark for shaping the structure of wages in the formal sector. The informal sector workers hardly benefit from the national minimum wage policy as a result of difficulty in its enforcement resulting in many workers receiving wages below the national minimum wage. After the abandonment of the legislative backing to minimum wage in 1991, no executive or legislative instrument has been passed to give legal effect to the minimum wages resulting in low compliance.

In 1994, the Gyampo Commission was charged to come up with a report that would provide policy guidelines for government in addressing the earning differentials in the economy.

4 The PSMRP exercise is expected to layoff about 20,000 public servants by the end of the exercise in 2011.
public service. However, the lack of political will on the part of government and opposition from a section of the labour front prevented its implementation. The second half of the 1990s, saw the rationalisation of public sector jobs as a way of rectifying disparities, distortions, anomalies, and inequalities in public service salaries and wage structure. The policy was aimed at ensuring equity and fairness in unifying public sector incomes, standardise job titles in the public sector, enhance labour mobility within the public services, and consequently link compensation to productivity, economic growth and increase in domestic revenue. The apparent distortion created during the initial stages of implementation caused many people to object to the new salary structure. Nonetheless, the distortions and imbalances of public sector wage and salary structure remains unresolved. This is evident in the number of industrial actions embarked upon by workers in recent times which has virtually become an annual ritual in Ghana.

4. Growth and employment responses to economic policy

The Ghanaian economy has been saddled with growing unemployment and underemployment, widening income disparity and poverty incidence in spite of the fairly decent annual average growth recorded since 1984. This suggests that the source and pattern of growth have not been socially and structurally compatible. Many have therefore argued that economic growth is only a necessary condition but not sufficient condition for employment generation and poverty reduction.

Growth Response

The Ghanaian economy recovered remarkably from the negative growth to record annual average real GDP growth of 4.8 percent over the past two decades. Growth was driven largely by the service sector which registered an annual average growth rate of 6.2 percent compared with 5.9 percent and 3.5 percent by industry and agriculture respectively over the period. The performance of agriculture has been dismal over greater part of 1980s and 1990s. This could be explained by the policy bias towards the food crop sector where majority of the working population are engaged. Agricultural policy during the period of structural adjustment was targeted at promoting cash crops production, particularly cocoa for export. During the initial phase of the adjustment, the first key target was the improvement of producer incentives in the cocoa sector in line with the World Bank conditionality which envisaged the share of the producer price to increase above 65 percent of the f.o.b. price. At the same time, agricultural subsidies which benefited both food crop and cash crop farmers were totally abolished. The falling price of cocoa on the world market partly as a result of increasing world production hampered the effort of government in the provision of incentives to cocoa farmers. In addition, the numerous problems facing the sector including lack of access to credit, land and profitable markets, inadequate agricultural infrastructure such as irrigation, storage and feeder roads hindered the growth of the larger sector. This culminated in the loss of its share in total national output as reported in table 1.

On the contrary, the industrial sector responded remarkably to the reform during the early stages with an annual average growth of 10.6 percent between 1984 and 1988. This was largely accounted for by the dramatic recovery of the dominant sub-sector – manufacturing. The sub-sector recorded an overwhelmingly improved growth performance of 12.6 percent on average over 1984-88 period. The good show of manufacturing which reflected on the improved growth performance of the industrial sector overall in the early phase of the reform is largely explained by the improved utilisation of installed capacity resulting from the minimisation of foreign exchange pressure as a direct consequence of foreign exchange deregulation. The reduced foreign exchange pressure made available and
accessible foreign exchange for the importation of raw materials, spare parts, and equipment as well as other needed inputs necessary for efficient and effective utilisation of installed capacity of existing plants and machinery (ISSER, 2000).

The remarkable performance of industry and its dominant sub-sector was however short-lived as the overall growth of the industrial sector took a downward turn to record an annual average growth of 3.5 percent in the 1990s and beyond. Manufacturing growth performance over the same period was no better either recording a 3.8 percent annual average growth over the same period. The sluggish growth performance of manufacturing in the 1990s has been linked to the adverse effects of trade, exchange rate and financial liberalisation. The rapid depreciation of the cedi and high cost of credit resulting from high lending rates compelled many import dependent manufacturing enterprises to cut back production due to high production cost. The liberalisation of external trade continues to expose many vulnerable domestic enterprises to unfair competition from imported manufactured goods. This makes them less attractive to potential investments.

The problems have further been compounded by the inefficiency of the import substitution manufacturing firms and the lack of effective linkages between manufacturing and other major sectors, especially agriculture. Other structural problems including unreliable water and power supply, infrastructural bottlenecks, problems of land acquisition, unstable industrial relations environment and unreasonable bureaucracies at the ports have combined to impede manufacturing and overall industrial growth. The persistence of poor management and inefficient equipment coupled with low productivity among the medium and small scale enterprises have also contributed partly to the dismal performance of manufacturing and industrial sector over the last decade and a half.

The mining sector has benefited immensely from exchange rate liberalisation and inflows of loans to the economy in response to the favourable investment climate. Various investment legislation passed have provided a clear framework for mining investment and have contributed to inflow of FDI to the sector. The inflow of resources has provided a room for the sector to acquire much-needed equipment and spare parts to boost mining production. Consequently, the growth of the sector was rapid especially between 1987 and 1993 with an average growth rate of about 10 percent before dropping to an average of 5 percent in the second half of 1990s.

The services sector seems to have been the life wire of the economy since the launch of the economic reforms, registering stronger growth compared to agriculture and industry. This has accounted for the increased share of service in total real GDP since 1984. The tourism sub-sector has seen rapid expansion since the launch of the economic reform largely as a result of real depreciation of the cedi and increase import capacity on account of inflows of loans and grants. The improved performance of the tourism sector made it the third foreign exchange earner in the latter part of 1990s after gold and cocoa. Commercial or trade activity responded quite remarkably to the deregulation of trade and exchange rate.

**Employment and Income effects of National Policies**

The growing incidence of unemployment, underemployment and poverty as well as the worsening income distribution in the midst of seemingly robust growth performance has provoked a lot of concerns about the efficiency of the old and existing national policy framework. The benefits of stabilisation and adjustment policies, as well as poverty reduction measures in terms of growth have not been translated into employment generation for the growing working population of the country. The estimated decline in employment-population ratio from 44 percent to 39 percent between 1984 and 2000 reflects the job creation challenges of the Ghanaian economy in spite of a decent growth
performance. The 4.8 percent annual average growth was able to generate annual average employment expansion of only 2.3 percent (Baah-Boateng, 2004).

Incidentally, the unemployment rate of the country has consistently increased from a very low level of 2.8 percent in 1984 to an unacceptably high rate of 10.4 percent in 2000 (table 2). The situation is worse among the youth as well as in the urban areas. The rate reached 13.4 percent in 1998 among the urban dwellers from 11.3 percent in 1992 while it dropped marginally among the youth from 17% to 16% over the same period (table 2). The incidence of underemployment also worsened in the 1990s as underemployment rate jumped from 8 percent to 14 percent between 1992 and 1998. The weak employment performance of growth has also accounted for the widening income inequality in the economy. The sluggish growth performance of the informal sector which employs over 80 percent of the Ghanaian workforce continues to have adverse effect on incomes of participants. These unpleasant social developments have been blamed on the negative side of fiscal, monetary, trade, investment and labour market policies implemented over the years.

The inability of growth to translate into job creation may be linked to the source of growth over the past two decades. Growth has been based largely on exports of low value added cocoa and gold which are found to be low employment intensive sectors. Growth has rather been very slow in high labour absorption sectors such as manufacturing, tourism and food crop activities. With the majority of the Ghanaian workforce engaged in agricultural and related activities, sluggish growth in the sector over the years has made the sector unattractive compelling the youth to migrate to the urban areas in search for non-existing jobs.

**Employment Outcomes of Restrictive Fiscal Measures**

The macroeconomic stabilisation measures pursued over the past two decades appear to have caused undue distortions and dislocations in the labour market. The public sector retrenchment and privatisation measures carried out as a measure to curtail growing public expenditure caused a shift in employment from the public to the informal sector with a considerable number of people becoming jobless. Boateng (2001) estimates that the number of people redeployed between 1987 and 1991 was about 50,000 constituting about 32 percent decline in public sector employment. According to Baah-Boateng (2004) the rising unemployment in the late 1980s and early 1990s could be partly linked to the public sector retrenchment exercise, which contributed to about 89% of the loss of about 235,000 formal sector jobs between 1985 and 1990.

The abolishing of agriculture subsidies as one of the expenditure control measures coupled with the numerous challenges has contributed greatly to the dismal growth performance of the sector. The numerous problems confronting agriculture such as lack of access to credit, land, irrigation and storage facilities and profitable markets, has made the sector less attractive to majority of the youth forcing many of them to migrate to the cities in search for non-existing jobs. Consequently, agriculture employment has declined consistently since the inception of the economic reform form 61 percent in 1984 to about 51 percent sixteen years later (table 2).

The revenue mobilization measures undertaken alongside expenditure reduction measures through tax reforms such as the introduction of VAT, national reconstruction levy, petroleum tax and increased marginal tax rate of personal and corporate tax, among others did not distinguish employment-friendly activities from low labour absorption activities. The resulting decline in aggregate demand has contributed to slow enterprise expansion in terms of output and employment.
Employment Response of Tight Monetary and Liberalised Financial Strategies

The monetary and financial sector reforms have succeeded in ensuring a fair degree of price discipline with a greater degree of competition among banks. However, it has failed to improve savings, investment and growth necessary to create the much needed job opportunities for poverty reduction. The structure of the financial system in the country appears to limit the country’s chance of realising an employment oriented development path. Banks in the country continue to show preference in credit delivery, for the public sector and large but low labour absorption enterprise, such as mining and imports. Agriculture, manufacturing and many other informal enterprises with high employment generation potential are generally denied access to formal finance. Yet, these excluded activities are the main avenues for employment for the majority of the Ghanaian workforce.

The deregulation of interest rates that has witnessed a rise in nominal interest rates above the rate of inflation to maintain a positive real interest rate has exacerbated the limited credit access to agriculture and small-scale enterprises. The re-emergence of macroeconomic instability in the 1990s pushed up nominal lending rates to 47 percent in 2000 with its discouraging effect on private sector’s access to bank credit. The failure of banks in Ghana to provide start-up finance for small scale entrepreneurs has made it difficult for the youth particularly to go into self-employment, forcing them to always look up to the state with its limited capacity for employment. The difficulty facing employment friendly sectors such as agriculture, agro-processing and manufacturing in accessing affordable credit from formal financial institutions has been a major source of impediments for output and employment expansion of these sectors.

Job Creation within Trade and Exchange Rate Liberalisation Regime

Since the introduction of the trade liberalisation programme as part of the reform package, fragile local enterprises have been exposed to fierce competition from increasing imports from the outside world. This has tended to encourage more ‘buying and selling’ in the economy to the neglect of productive activities as reflected in the increasing employment share of wholesale and retail trade. The economies of scale (in terms of higher productivity and access to high technology) enjoyed by firms in Europe, US and Asia offer them advantages over local Ghanaian producers who battle with high costs of production emanating from rising interest rates, increasing nominal wages, imported raw materials and the steadily rising cost of utilities. Consequently, local firms find it difficult to compete effectively in the highly liberalised trade environment resulting in some firm collapses and job losses. Many have attributed the stagnation in manufacturing employment to what they see as the over-liberalisation of the economy in respect of trade (ISSER 2004). The textile, rice and poultry industries are currently facing difficulties in competing with the influx of cheaper imported products. As noted earlier, the share of manufacturing in total employment improved marginally from 10.9 percent to 11.5 percent between 1984 and 2000 reflecting the slow growth and declining share of the sector in GDP (tables 1 and 3). This trend supports the idea of employment-generating challenges emanating from trade liberalisation.

On the export front, the limited composition of manufactured goods and large components of unprocessed primary commodities shows the weakness of the country’s export base with its employment implications. The adoption of trade liberalisation policy without due consideration to the strength and competitiveness of local firms has had serious employment implication for the country. It is worth noting that the lack or limited structural transformation of the Ghanaian economy will continue to make the economy increasingly vulnerable in a highly liberalised and globalised trade environment.
Employment Effect of Investment Flows

Investment policies pursued over the past two decades appear to have benefited the mining sector most relative to the more labour absorbing sectors. This is evident in the growth performance of the sector with relatively little to show for employment generation. In spite of the above average 6.7 percent annual growth recorded by the mining sector, employment in the sector has been low. Mining employment accounted for only 1.9 percent of total employment in 2000. In spite of the massive resource flows into mining, employment in the mining sector declined annually by 4.6 percent on average, confirming the point by Aryeetey (2004) in his study of the relationships between FDI and job creation that the mining sector does not generate significant employment.

On the other hand, tourism, exports, manufacturing and agriculture with high labour absorption capacities attracted far less investment to boost production. The employment effect of various initiatives towards increased investment has been marginal compared to the value of investments. Between 1994 and 2005, a total number of 1,884 projects registered by the GIPC were projected to create 106,124 new jobs with over 45 percent emanating from manufacturing and agriculture. According to the GIPC report captured in table 4, manufacturing and agriculture accounted for 45.7 percent of total expected employment generation from projects with a combined value of US$650.4 million. The sectoral distribution of investment shows that export trade demonstrated high labour absorption capacity followed by building and construction, tourism, manufacturing, and agriculture (in that order) based on number of jobs created per a million dollar project (table 4). The Ghana Export Free Zone initiative has also generated direct employment for about 5,523 people between 1996 and 1999 from a number of enterprises registered to operate within the enclave.

### Table 4: Investment Report under GIPC Act 478, September 1994 – September 2005

<table>
<thead>
<tr>
<th>Sector</th>
<th>No of Projects</th>
<th>Total Investment Cost</th>
<th>Expected Job Creation</th>
<th>Jobs per a million dollar project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Million US$</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>537</td>
<td>428.1</td>
<td>33,190</td>
<td>19.6</td>
</tr>
<tr>
<td>Services</td>
<td>529</td>
<td>1120.2</td>
<td>25,560</td>
<td>51.2</td>
</tr>
<tr>
<td>Tourism</td>
<td>221</td>
<td>82.3</td>
<td>6,620</td>
<td>3.8</td>
</tr>
<tr>
<td>Building &amp; Const.</td>
<td>146</td>
<td>162.6</td>
<td>15,353</td>
<td>7.4</td>
</tr>
<tr>
<td>Export Trade</td>
<td>110</td>
<td>20.7</td>
<td>2,518</td>
<td>0.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>145</td>
<td>222.3</td>
<td>15,251</td>
<td>10.2</td>
</tr>
<tr>
<td>General Trade</td>
<td>196</td>
<td>153.3</td>
<td>7,632</td>
<td>7.0</td>
</tr>
<tr>
<td>Total</td>
<td>1884</td>
<td>2189.5</td>
<td>106,124</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Ghana Investment Promotion Centre.

Clearly, the employment response to investment depends not only on the value of the investment and the number of projects, but also determined by the distribution of the investment. However, with a total labour force of about 8.3 million and unemployment rate of 10.4 percent in 2000 a total of 106,124 new jobs created from projects with a combined value of US$2,189.5 million over eleven years does not seem significant. In addition, 48.5 new jobs generated per million dollar project appear to suggest that the employment effect of FDI is low. Antwi-Asare (2005) finds a very little linear association between total FDI stock and employment in Ghana over the periods 1980-90 and 1991-2000. This seems to imply that the flow of FDI (even in larger volumes) is not a panacea of employment problems in the country. It rather depends on the sectors where the FDI flows into.
shown in table 4, the employment impact of FDI would best be realised if it flows into sectors such as export trade, tourism, manufacturing, agriculture and building and construction rather than mining. Thus, the economy stands to benefit from employment creation if investments are directed to these sectors which have proven have greater potential for job creation.

Outcomes of Labour Market Policies

Over the past two decades, a number of changes have occurred in the Ghanaian labour market in response to the pursuit of economic reforms in the country. The market witnessed an expansion of the urban informal sector largely as a result of privatisation and public sector retrenchment. The centre of employment has also shifted in favour of the services sector as shown in table 2 on account of slow growth in manufacturing and agricultural employment. The persistence of labour surplus has also contributed to increase in educational deepening to the extent that some people consider the pursuit of high and professional education as refuge in a jobless environment.

In addition, the economic reforms and global technological change have also contributed to changes in labour demand in favour of skilled, professional and managerial personnel in the services sector. For instance, evidence from a survey of advertised vacancies indicate that the proportion of high-skill jobs in total number of jobs advertised increased from 58.4 percent in the pre-reform years to 70.8 percent during the reform representing 24.8 percent in the relative demand for high skills (Boateng, 2002). The distribution of job vacancies by skills in 2005 shows that job demand is shifting in favour of professionals, technicians and artisans against sales secretarial and clerical jobs. Estimates from the Bank of Ghana (2006) indicate that artisans, machine operators, technicians and other professionals jointly accounted for 55 percent of job vacancies as against 15 percent for sales and other service workers and 9 percent for secretarial and clerical works. Demand for executive and top professional jobs constituted 5 percent while other type of skills accounted for remaining 16 percent.

The growing rate of unemployment and underemployment over the past two decades suggests that employment-generating policies have been quite disappointing. The failure of the economy to absorb the increasing labour force and put breaks on the increasing rates of unemployment confirms the weakness of the country’s growth. Apparently, growth has largely emanated from low labour absorption activities such as mining and capital-intensive construction activities. The main driving force of the growth performance of the economy since the launch of the structural adjustment programme has been the improved performance of mining, construction, service and the cocoa sector where labour absorption rate is quite low. This accounts for the difficulty facing the Ghanaian economy in translating high real GDP growth into employment generation. The weak employment generating capacity of the Ghanaian economy in the midst of quite remarkable growth suggests that growth may be a necessary but not a sufficient condition for employment generation. Output and employment expansion of the private sector have been constrained by numerous problems as already noted. The policy intervention carried out to arrest the adverse employment implication of economic reform appears to have made little impact given the growing incidence of joblessness.

The impact of skill development policies has not contributed much to employment generation due to the supply driven nature of skill training. Many graduates from tertiary, vocational and technical training institutions as well as traditional apprenticeship are unable to secure placement in the labour market since the contents of some of the courses are less relevant to the needs of the economy. Many of those who are fortunate to secure replacement find it difficult to survive in the unfriendly business environment due to high cost of doing business and low domestic demand on account of external competition.
There have also been changes in the wage and earning trends in the Ghanaian labour market since the take off of the reform in 1983. The formal sector witnessed general rise in real wage during the initial period of the reform as a result of stabilisation and increase in nominal wage. Real average monthly earnings per employee calculated as a ratio if nominal wage to CPI rose from 0.996 in 1985 to 2.096 in 1990 (Boateng, 2001). However, rising inflation emanating from currency depreciation and domestic sources made it difficult for the rising real earnings to be sustained. Real incomes of the poor and fixed income workers in particular declined in the 1990s due to rising inflation and exchange rate depreciation. This effect according to Boateng (2002) was however intended by the policy which required the growth of nominal wage to lag behind both the CPI and the rate of exchange rate depreciation to help minimize inflation inertia and provide financial strength necessary for export and GDP growth. Wage agitation particularly by public sector worker which has characterised the labour market over the past two decades suggests the challenges inherent in such policy intention.

The policy of keeping the growth of the nominal minimum wage below the rate of inflation and exchange rate depreciation as part of wage restrain measures also accounted for the decline in real minimum wage. This is evident in the minimum wage index curve dropping below the CPI curve during a greater part of 1980s and 1990s (Figure 2). However, as a result of the macroeconomic stability in terms declining inflation and exchange rate stability after 2000 as well as stronger wage agitation from the labour front, real and nominal dollar minimum wage have assumed an upward trend.

5. Conclusions

The fairly decent growth performance that made Ghana the model of economic reform in sub-Saharan Africa has been somewhat dented by the increasing rate of unemployment and underemployment. The implementation of stabilisation, investment, and trade policies that moved the economy from recession to a positive growth path could not avert the negative employment fallouts of the policies. This is because the policies narrowly focused on achieving macroeconomic stability and accelerated growth without adequate employment consideration. Growth appears to have emanated from mining which attracted the bulk of FDI but with very low labour absorption rate. Sectors with high labour absorption rate such as manufacturing, tourism, agriculture and exports have not attracted the necessary investment to enhance growth and employment performance.

The adoption of tight monetary and fiscal policies has undermined the flow of affordable credit to the private sector considered as an engine of growth in the current development process. The expenditure control measures targeted at keeping budget deficit reasonably low to prevent an inflationary spiral has hindered inflows of public investments into employment friendly sectors such as agriculture, manufacturing and tourism. The inflows of foreign investment have not benefited employment-friendly sectors such as agriculture, manufacturing, and tourism among others which have been found to generate more jobs with minimum investment. Instead, activities with seemingly low labour absorption like mining and construction activities have been the major recipient of investment inflows. Consequently, the employment impact of investments from both foreign and domestic sources has not been significantly felt.

The restrictive monetary policy and financial liberalisation have partly denied agriculture and small-scale manufacturing enterprises access to affordable credit in spite of the employment generating potential of these sectors. The continue exposure of vulnerable local manufacturing enterprises to fierce external competition in the name of external liberalisation has contributed to the slow growth of manufacturing output and employment. The limited structural transformation of export has prevented the economy from competing effectively on foreign market to reap the potential benefit associated with open trade.
Generally, the adoption of demand management approach that emphasizes tight macroeconomic measures within a liberalised trade and financial environment has been observed to have the potential of hurting employment by constraining public investment and financial resources from reaching employment-friendly sectors. Domestic enterprises have not been able to reap the benefit of trade liberalisation on account of their weakness in capacity to withstand foreign competition.

The foregoing suggests that although the orthodox reform pursued by Ghana rescued the economy from recession to a respectable growth path, employment and poverty impact has been weak. This is because growth has generally emanated from low labour intensive sectors. Growth performance in the high labour absorption sectors has been weak. The Ghanaian economy therefore requires a thorough review of the current national development policies to generate growth that would promote job creation, improve incomes of the citizenry for the realisation of its poverty reduction goals.

For employment-friendly growth to be realised, the following policy initiatives require some attention:

- demand management approach to economic policy needs to be complemented by supply-side measures that emphasize improvement in productivity, access to land and credit by labour-intensive sectors, and infrastructural development;

- macroeconomic policy design should explicitly include employment as one of the key targets with appropriate instruments. National development agenda needs to treat labour absorption as a priority such that projects with lowest expenditure per unit of labour absorbed are accorded the much needed priority;

- adequate support of various forms must be accorded local firms, particularly high labour absorption ones to make them compete effectively in the global trade environment;

- adoption of pragmatic measures to enhance labour absorption, including guaranteed credit facilities for micro and small-scale operators; providing targeted subsidies to food crop farmers to enhance demand and sustain production and employment;

- initiation of strategies to improve human capital acquisition and mobility through education, training and retraining, with emphasis on demand driven approach;

- adoption of special employment programmes such as technical and entrepreneurial/managerial training for new labour entrants;

- strengthening institutional capacity in the design, implementation, monitoring and reviewing employment-generation and poverty reduction programmes through investment in information gathering and national employment and incomes survey.

The adoption of these policy recommendations does not mean a policy shift from the market and export led growth strategy as contained in the SAP. Rather, it calls for a review of the current policies that emphasize demand management approach with little consideration to supply side effect. The best approach to improving the quality of growth is to pursue employment-generating growth strategy by complementing demand management macroeconomic policies with micro strategies that take on board the above recommendations.
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