

**ASHESI UNIVERSITY COLLEGE**

THE ROLE OF STATE DRIVEN CAPITALISM IN  
ENSURING ECONOMIC DEVELOPMENT IN  
GHANA; A CASE STUDY ON THE ASIAN  
TIGERS

BY

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## DECLARATION

I hereby declare that this dissertation is as a result of my own work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature:.....

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I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by Ashesi University College.

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Date:.....

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## **ABSTRACT**

In this present age where economic growth is not enough to sustain a country and its inhabitants. There is the need to establish strategies that spur its economy into development, and impact its inhabitants positively in the process. The study relates state-directed capitalism to economic development, while taking lessons from East Asian Tiger countries (South Korea, Taiwan, Singapore and Hong Kong), and taking into consideration Ghana's context and areas where state direction is needed to improve the economy. The methods used in the study include the use of books, internet sources, focus groups, interviews and questionnaires to fully understand the concept of state-capitalism and its relation to economic development.

Every country owes it to its citizens to ensure that the standard of living is above average and everyone from the elite to the grass root has their fair share of wealth accumulated from growth. The findings indicate that a combination of free market principles and government intervention make up for the inefficiencies of the market. This could be the key to changing a developing country into a developed one if only the proper institutions are established to ensure the political, economic and even social stability.

## **ACRONYMS**

GNP- Gross National Product

GDP- Gross Domestic Product

HDI- Human Development Index

ISI- Import-Substitution Industrialization

EP- Export Promotion

SME- Small and Medium Enterprises

IMF- International Monetary Fund

SAP- Structural Adjustment Program

ERP- Economic Recovery Program

KMT- Koumintang Regime

FDI- Foreign Direct Investment

GIMPA- Ghana Institute of Management and Public Administration

IRS- Internal Revenue Service

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## 1.0 INTRODUCTION

Capitalism, from a Marxist point of view, "is an economic system in which control of production and the allocation of real and financial resources are based on private ownership of the means of production." (Screpanti, 1999) Capitalism has been used as a tool for growth and development. As countries have expanded and developed, however, the concept of capitalism has evolved to suit different levels of economic development. Even though the underlying concept of capitalism is based on private ownership, in many economies external regulatory bodies or institutions have been put in place to supervise its activities and evolution. Free market economies such as that of the United States of America (USA) where the market is defined by interactions between the buyer and seller are self-regulated, while State-controlled economies such as that of Cuba, delegate all regulatory responsibilities to the government. The mixed market system, more or less, employs the use of "state-controlled capitalism," where both the government and market serve as regulatory bodies.

All countries, especially those that are impoverished, yearn for growth and Ghana's no different. Inasmuch as growth may be necessary, it is not sufficient for development. The difference between a growing country and one that is not growing lies in its ability to produce and apply modern technology (Rostow, 1960) or its productive capacity (Economic Growth, 2012). Since 1950, only 12 countries have managed to grow at rates in excess of 7 percent for 25 years or more.<sup>1</sup> Many more countries—

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<sup>1</sup> These countries include Taiwan, Singapore, South Korea, Japan, China, Botswana, Brazil, Malta, Hong Kong, Thailand and Oman (Commission on Growth and Development, 2008)



in places as diverse as Latin America, Africa, and the Middle East—have managed high growth rates for shorter periods, only to see that growth falter. (Economic Growth Strategies For Developing Countries in An Era of Global Uncertainty, 2008) Economic development means more than just growth and is accompanied by changes in output in the population. Economic development is usually accompanied by changes in the structure of the economy as well as the improved material well-being of the poorer half of the population. (Nafziger, 2005) Economic development is also typically associated with even a decline in the agriculture's share of GNP and the corresponding increase in the GNP share by industry and services. When it comes to the younger portion of the population, focusing mostly on children, growth involves stress on quantitative measures (height or GDP), while development draws attention to changes in capacities such as physical coordination and learning ability. (Nafziger, 2005)

Closely related to this is Amrtya Sen's conception of development. In Sen's view, development is a process of expanding the real freedoms people enjoy. This can be done by removing all major sources of "un-freedom" such as poverty, poor economic opportunities, systematic social deprivation, neglect of public facilities, intolerance or over-activity of repressive states. (Cooper, 2000) Sen further explains that using an economy's industrialization as a measurement of real output on a per-capita basis is not sufficient to determine whether a country is "developed." It transcends further into "increasing the capability of all human beings to achieve those things that they most value." (Cooper, 2000) Income and financial stability, without a doubt, enhance the

capability of humans so there's no denying that growth is also a necessary stage that every economy must reach even before development. It, however, does not ensure good health, education, longer life spans, the ability to influence political decisions that affect one's life and even the liberty to change one's lifestyle as and when it seems appropriate. (Cooper, 2000) This research establishes a link between state-driven capitalism and attaining economic development.

### **1.1 BACKGROUND OF THE ASIAN TIGERS**

The Asian tigers, namely Singapore, Taiwan, Hong Kong and South Korea, all used different routes to attain economic development. One common thread in their strategies to achieve development is government involvement in conducting affairs of the state and making sure wealth is efficiently allocated. The vital role that government played in the story of the Asian tigers, while flying in the face of "*laissez faire*" market capitalism, highlights the welfare-improving role of government in an environment with chronic market failure. Given the similarities between the tigers and Ghana some 60 years ago, and the divergent paths their respective economies have taken, it makes sense for Ghana to evaluate the strategies of the tigers to learn useful lessons for development instead of focusing solely on the advice of Western economists.

#### Economic History of Taiwan

Taiwan's rapid economic development caught the world unawares, causing it to be hailed as one of the Asian miracles in this era. (White, Taiwan: Giving New Meaning to "Made in Taiwan", 2012) In the 1960s and 70s, much like many African countries today, it was heavily dependent on foreign technology and aid. By 2001 its gross domestic

product (GDP) had increased by 44 times in real terms, from \$ 1.7 billion in 1952 to \$ 282 billion in 2001. (White, Taiwan: Giving New Meaning to "Made in Taiwan", 2012) Even through the Asian financial crisis of 1997, it remained relatively unaffected and its GDP declined only 2% in 1998.

Much credit to Taiwan's growth is given to the strong industrialization present in its economy, and today it has become a developed economy with most of its focus on services, manufacturing and high technology. Since the 1960s, however, its government was known to have instituted export-friendly strategies as well as reforms to promote greater agricultural productivity. Foreign trade became the engine of growth in Taiwan's economy 50 years afterwards, changing from mainly agricultural commodities to industrial goods, with its electronic sector receiving the most investment from the U.S. (White, Taiwan: Giving New Meaning to "Made in Taiwan", 2012)

Manufacturing accounts for almost 28% of Taiwan's GDP (2007 estimates from CIA World Facts book) and some of its major manufactured goods include petrochemicals, electrical and electronic machinery, paper products and basic metals. (White, Taiwan: Giving New Meaning to "Made in Taiwan", 2012) Its service sector also has accrued a major part of its GDP, taking 71.1 % while the agricultural sector continues to decline which is one of the key indicators that a country may have reached its "take off" stage of development as listed in Rostow's stages of economic growth. (Nafziger, 2005)

Taiwan currently has a GDP rank of 24 out of 185 countries and an HDI<sup>2</sup> ranking of 18. (White, Taiwan: Giving New Meaning to “Made in Taiwan”, 2012) Today, there are greater and equal opportunities even for women. The ratio of the population with at least secondary education between men and women in Taiwan was 87 percent to 75 percent and currently 30 percent of seats in the legislature are occupied by women. (China Post, 2011)

### Economic History of Singapore

Singapore began as a trading center that served the British East India Company in the 19<sup>th</sup> century. Under the administration of Sir Stamford Raffles, it transformed from a village without any hope of progressing to a major port where merchandise could be imported and exported without the payment of duties. It continued to flourish as its population increased. By the 20<sup>th</sup> century it had moved from being a port to one of the world’s main sources for rubber and tin at a time of increasing industrialization. Even though Singapore survived the First World War, the Second World War left it in shambles until 1949, when it got back on track and continued with its production of rubber and tin. (White, Singapore: The Jewel in Asia’s Crown, 2012)

After Singapore’s independence in 1959, its government played a major role in advancing Singapore from a country whose economic livelihood depended on its “entrepot” to manufacturing-based industrialized economy. It also went on to add economic improvements

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<sup>2</sup> The Human Development Index (HDI) refers to the U.N Development Program’s alternative measure of welfare to GNI or GDP, which combines indices of literacy and schooling, life expectancy, and GDP per capita in purchasing power parity (PPP) U.S dollars. (Nafziger, 2005)

such as making use of bare lands for industries, making labor-intensive industries, such as textiles, a priority to boost employment, and at that same time putting in measures to ensure that labor was efficiently equipped with the needed skill. It promoted export industries and foreign trade to decrease its dependence on Britain. Between 1960 and 1999 Singapore's GDP growth rate averaged at 8.0%. (White, Singapore: The Jewel in Asia's Crown, 2012) Even though the country suffered through the financial crisis of 1997, it picked itself up, no doubt through the direction of government, by instituting cost-cutting measures such as wage reductions. By 2000 it had a GDP growth rate of 9.4%. (White, Singapore: The Jewel in Asia's Crown, 2012)

With all these measures, Singapore has been able to improve not only its economy but the well-being of its citizens as well. Singapore continued to improve its human capital through incentives like tax relief for up to five years of employment and unlimited repatriation from profits and capital in some government favored industries. According to the Economist Intelligence Unit, it is ranked as a developed economy with the best quality of life in Asia. Its human development index (HDI) Singapore ranked 25<sup>th</sup> out of 177 countries. (White, Singapore: The Jewel in Asia's Crown, 2012)

### Economic History of South Korea

This country practically rose up from shambles, being an isolated nation of farmers relying mostly on aid. Its dramatic turnover earned it the title "Miracle on the Hanggang River." Today it leads the world in Internet access, and is a global innovator in consumer electronics and ship building companies. The economy started by exporting mainly shoes and

textiles then became a major producer of automobiles, fabrics, telecommunication and sound equipment, metal goods, electronics, chemicals and steel. (White, South Korea: The Comeback Kid of Asia, 2012)

To stimulate economic growth, South Korean policymakers promoted indigenous industrial firms, as did many other post-World War II developing countries. Trade barriers were erected and prohibitions on manufacturing imports were imposed in hopes that this would protect domestic firms, by giving them a chance to improve productivity through learning-by-doing and importing advanced technology. This was known as Import-Substitution Industrialization (ISI). After General Park Chung Hee overthrew the first republic in 1960, a new strategy to stimulate growth was introduced. This was mainly export promotion (EP), even though the ISI was not completely abandoned. In the quarter century after the policy shift in the 1960s, South Korean per capita grew at an unusually rapid rate of 7% per year, an outcome only matched by Taiwan, Hong Kong and Singapore. (Encyclopedia, 2010)

South Korea's government played a major role in its transformation by encouraging manufacturing industries which led to a phenomenal export-driven growth. Unlike many developing countries, South Korea chose an export-led industrialization strategy to produce labor-intensive products that could be produced more cheaply than in North America and Western Europe, and therefore competitive and exportable to those markets. (Nations' Encyclopedia, 2012) Its government directly intervened in its economy by offering strong incentives to businesses,

regulating foreign exchange and implementing highly centralized fiscal policies. To date, it has regulated and supervised foreign exchange by putting in place four government entities; the Ministry of Finance and Economy, the Bank of Korea, the Financial Supervisory Service and the Korea Customs Service. (Nations' Encyclopedia, 2012) The country suffered, however, through the Asian crisis due to insufficient foreign reserves and extensive borrowing, leading the country's biggest conglomerates, known as Chaebol, to collapse. The government undertook extensive restructuring and by the middle of 2001 it had paid off all their loans.

South Korea has a human development index rank of 26 out of 182.

#### Economic History of Hong Kong

Hong Kong has evolved into one of the world's most important economic giants. The country's main focus economically has been on trade, commerce and shipping and as the manufacturing sector started to grow by 1950s, it reached its peak by 1980. It became even more prominent in the 1980s, when the manufacturing sector employed nearly 905,000 people. (White, Hong Kong; A symphone of Lights, 2012) Hong Kong, today, serves as an important distribution center for manufactured goods coming from China. This has enabled its service sector to account for 90.7% of the city's GDP. Out of 3.5 million residents who make up Hong Kong's labor force, over 91% of them are in the service sector. (White, Hong Kong; A symphone of Lights, 2012)

Hong Kong's development has also been seen as a "miracle." This is because its industrialization came with an increasing number of small and medium sized enterprises (SMEs) rather than a consolidation of small companies into huge ones. Until the late 1960s, Hong Kong's government had not even engaged in active industrial planning. Factories that employed fewer than one hundred workers formed about 42% of Hong Kong's domestic exports to the U.K in 1968, which amounted to HK\$1.2 billion. Even at the end of 2002, 98% of enterprises were SMEs and they provided 60% of total private employment. (Schenk, 2010)

Unlike the other tigers however, Hong Kong's development can be attributed to its government's hands-off policy, making it a prime example of laissez-faire capitalism. It also suffered severely from the 1997 Asian financial crises, came back up only to be brought back down by the dot-com crash of 2000 and an outbreak of Severe Acute Respiratory Syndrome in 2003. It was however, able to resurface with a growth of 6.9% in 2006. (White, Hong Kong; A symphone of Lights, 2012) Despite the government's resolution to let the dynamics of the market remain in control, it has put in place certain measures such as pursuing more initiatives to boosting transportation and developing ports.

Its human development index rank is currently 21 out of 187.



## Economic History of Ghana

Ghana's population is estimated at about 24 million (Bonsu, 2012) with 28.5% below the poverty line<sup>3</sup> (Index Mundi, 2012). There have been almost ten attempts to plan Ghana's development. These include:

- Guggisberg's Colonial Infrastructural Plan (1919-1926) which resulted in the building of the Takoradi to Kumasi Railway Line, Takoradi Harbour, Achimota School, Korle Bu Teaching Hospital, Cocoa Research Centre at Tafo, inter-urban trunk roads amongst others
- Nkrumah's 7-year Development plan of 1963-1970 where the main motive was to modernize the economy through industrialization which consisted of a 7-year development plan to construct schools, hospitals, motorways, trunk roads, housing projects and water supply facilities.
- Rawling's Economic Recovery Program (1984-1990) which was put in place under the advice of the International Monetary Fund (IMF) after Ghana suffered through a prolonged economic decline, the overthrow of Nkrumah's government and a succession of military coups. Although economic growth averaged about 3.5% per annum from 1990-2000, the recovery was short-lived. Conditions imposed by the IMF in the form of the Structural Adjustment Program (SAP) included balance for payment support, massive devaluation of Ghana's currency, retrenchment of thousands of civil and public

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<sup>3</sup> Poverty line refers to national estimates of the percentage of the population falling below the poverty line which are based on surveys of sub-groups, with the results weighted by the number of people in each group. Definitions of poverty vary considerably among nations. For example, rich nations generally employ more generous standards of poverty than poor nations. (Index Mundi, 2012)

sector employees, budget cutbacks on social services of health, education and welfare. These policies further increased levels of poverty in the country.

- Vision 2020 (1996) which aims at making Ghana a middle-income country through free-market reforms over the course of the next 25 years. Included in the plan are increased privatization of state-owned enterprises, a friendlier environment for foreign investors, and renewed government efforts to improve infrastructure and social welfare.

Considering the promising nature of Vision 2020, which can be implemented only if Ghana manages to exercise political, institutional and market discipline, this study serves as a framework that could potentially shape the Ghanaian economy as it seeks to put in structures to make Vision 2020 a reality.

## **1.2 RESEARCH QUESTIONS**

- How much government intervention is needed for economic development?

## **1.3 OBJECTIVES**

- To determine government's role in retarding or promoting economic growth.
- To investigate the relevance of government in stimulating growth.
- To uncover the steps that the Asian Tigers took and the role their governments played to attain sustainable economic development.
- To establish a set of policy directives drawing from literature and the experience of the Asian Tigers to help Ghana develop.

#### **1.4 SIGNIFICANCE**

Ghana after independence seemed to be poised for economic success. The country enjoyed a privileged position after an era of colonialism due to a relatively stable regime with a charismatic leader Dr. Kwame Nkrumah committed to soliciting international financial support, profitable natural endowments and a comparatively high stock of human capital. (Meng, 2004) Ghana at this time was just at the beginning stages of economic development, as were many Asian countries including Taiwan, Hong Kong, Singapore and South Korea, now popularly known as the Asian Tigers. These countries had the same deplorable conditions as Africa-- corruption, political instability, dictatorship, conflicts, poverty, unskilled labor, lack of technology and the like. (The Herald, 2011) Today, however, even the world's "Super Powers" consider them worthy opponents when it comes to development. The purpose of this paper is to find out:

- i. Why and where Ghana veered off on its path to development.
- ii. What strategies the Asian Tigers undertook and how the role of the government helped them to obtain over 50 years of development despite some setbacks.
- iii. How the lessons learned from the Asian Tigers can be implemented in Ghana to put it back on course.

My research provides a framework of strategies that could be highly beneficial in improving the economy and sustaining growth. It shows that economic development is depends on market mechanisms and state regulations to ensure that the market works

efficiently. It also uncovers loopholes in strict government interventions or in absolute dependence on free markets and how they can complement each other to distribute wealth fairly. The Asian Tigers are an appropriate benchmark because they are concrete examples of the benefits of a healthy mix of state regulation and capitalism.

The long-term goal for Ghana under Ghana Vision 2020 is to achieve a balanced economy and a middle-income country status and standard of living with a level of development close to Singapore's present level. (NDPC, 1996) Considering that Singapore is one of the Asian Tigers, this study is appropriate for Ghana's current economic situation. The study could be particularly useful to policymakers and those working in the Ministry of Finance and Economic Planning.

## **2.0 LITERATURE REVIEW**

### **2.1 THEORETICAL FRAMEWORK**

Capitalism is acknowledged as the reason for the economic success in the West. Even though there are many types, all might not necessarily work for a particular economy's context.<sup>4</sup> In a free market capitalist state, a free-price system is used where supply and demand are allowed to reach their point of equilibrium without intervention by the government. (Wikipedia, 2012) Productive enterprises are privately owned, and the role of the state is limited to protecting the rights to life, liberty, and property. Currently, there are major doubts about most of the Western models of capitalism which patronize free markets.

The free market is efficient, theoretically, because it allocates resources to the most productive use. However, the market may fail or the assumptions of a free-market do not hold in actuality. The model claims that free markets lead to economic prosperity, but European voters who have now witnessed some of the effects of little to no state regulation beg to differ. The European and American free market economies have thrived but seem to be rigged in favor of the business elite who have gained at the expense of others who are not so privileged. (The Economist, 2011)

State interference, however, has some of its own downsides. In the case of the Asian Tigers, most government interventions, especially in the

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<sup>4</sup> Capitalism, from a Marxist point of view, "is an economic system in which control of production and the allocation of real and financial resources are based on private ownership of the means of production. (Nafziger, 2005) There are different types of capitalism such as Mercantilism, free-market capitalism, social market economy state capitalism, corporate capitalism and mixed economy. (Wikipedia, 2012)

financial sector, were meant to remedy market failures, and not necessarily to take complete control of the markets. Highly industrialized economies encounter failures, even though they are more prominent in developing countries. The governments of the day usually have to establish significant regulations to restore order. The East Asian Tigers were able to put these regulatory initiatives in place without most of the hassle that other countries went through, which was part of the reason why their economic transformation is seen as remarkable. (Stiglitz, 1996) The East Asian Tigers sought not to replace markets and market forces but to use and direct them. Government lending programs, for example, complemented private lending; they did not replace or displace it. (Stiglitz, 1996)

The government's ability to rectify market failures in developing countries such as Ghana is rather restricted but the East Asian model is still replicable, especially when it comes to investments in education, prudent regulations towards capital adequacy requirements and controls on real estate lending. (Stiglitz, 1996) There however, is the problem of political abuse which is rampant in the African region. The East Asian institutions, however, were designed to reduce vulnerability to political abuse. The use of performance based criteria for giving out credit, for example, limited discretion or corruption. Provision of subsidies and financial restraints also reduced the instances of rent which are widespread in developing economies. (Stiglitz, 1996) These institutions could also be established in Ghana to curb political abuse.

The literature review starts by bringing to light the origins of capitalism and how through the centuries it appeared to be the main engine for growth, and whether it is appropriate for a developing country to follow the mechanisms of capitalism in its free market form. The thesis outlines some of the shortcomings of using the Washington consensus<sup>5</sup> as a benchmark for prescribing policies for countries seeking development, especially since these policies are rooted in theories of free market capitalism. Next the thesis attempts to prove that the Asian Tigers combined capitalism and government intervention to achieve the economic development they now enjoy, and that capitalism is not entirely inappropriate despite its criticisms. Included is how regulations provided by a development-oriented government can serve as a means to assist aid-dependent countries such as Ghana to ensure the aid is properly used. Last, the thesis emphasizes the benefits of having good leadership or governments, who encourage the establishment of institution and the use of education as a tool to combat underdevelopment. This, as the literature suggests, ensures that everyone from the elite to the grassroots is equipped with some skill to gain their fair share of wealth.

## 2.1 Capitalism and modern Western economic development

E. Wayne Nafziger (2006) outlines the origins of capitalism in his book *Economic Development*. Capitalism was a major instrument in ensuring sustained economic growth in the West from the very beginning.

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<sup>5</sup> The Washington Consensus is a basic agreement by Washington-based institutions, the World Bank, International Monetary Fund and U.S Treasury on international economic policies toward LDC (least developing countries). This consensus is derived from neoclassical economics trained in the United States and United Kingdom and especially associated with the views of U.S President Ronald Reagan and U.K Prime Minister Margaret Thatcher during the 1980s. (Nafziger, 2005)

It was the dominant economic system since the breakup of feudalism from the 15<sup>th</sup> to the 18<sup>th</sup> centuries. The relationship between private owners and workers plays a major role in capitalism, with the means of production (land, mines, factories and other forms of capital) also privately held. In other words, capitalism in its original form is what is known as free-market capitalism. The means of production are legally free but workers with no capital sell their labor to employers. These employers, or the private individuals operating for profit, are in control of production decisions.

Capitalist institutions slowly eroded the medieval and feudal economies due to their appropriateness for long distance trade, the burgeoning industrialization and urbanization, and decreasing dependence on subsistence agriculture. (Nafziger, 2005) Capitalism was first successful in the West when the medieval Roman Catholic Church's authority broke down with the Protestant Reformation of the 16<sup>th</sup> and 17<sup>th</sup> century. This provoked a new economic order. However, Max Weber in his book *The Protestant Ethic and the Spirit of Capitalism*, insisted that the new Protestant ethic fosters hard work, frugality, sobriety and efficiency, which are all essential virtues for capitalist development. Regardless, most economic historians would agree that the decline of the church's supremacy in political, economic and ideological realms was necessary to promote capitalist development. (Nafziger, 2005)

Capitalism was also successful because between the 16<sup>th</sup> and 19<sup>th</sup> centuries, Western Europe witnessed the rise of strong national states that established a domestic market free of trade barriers, a uniform



monetary system, contract and property law, police and militia protection against internal violence, defense against external attack, basic transportation and communications, which were all essential for success of capitalism. (Nafziger, 2005) Before, absolute monarchs had accumulated power from feudal lords and town authorities and merged territories into large political and economic units known as the nation-state. These nation-states provided the larger markets and economies of scale for capitalist expansion. The monarchs yielded power to the bourgeoisie, middle class and the capitalist class<sup>6</sup> in these states, but the capitalist class's existence was quite shaky under autocratic authority. The capitalist class ultimately stripped the monarch of power and installed representatives who favored their economic interests more. (Nafziger, 2005)

The decline in the Catholic Church's influence also came during the Enlightenment period in Europe during the 17<sup>th</sup> and 18<sup>th</sup> centuries, which led to major scientific discoveries of electricity, oxygen, and calculus, amongst others. The philosophical rationalism<sup>7</sup> and humanism side of the Enlightenment emphasized freedom from arbitrary authority, which urged the need for a self-regulating market with no political intervention or state monopoly.

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<sup>6</sup> Capitalist state is where the state is treated as an instrument or functional mechanism for reproducing capitalist relations of production. The state is defined as a relatively unified ensemble of socially embedded, socially regularized, and strategically selective institutions, organizations, social forces and activities, organized around making collectively binding decisions for an imagined political community (Lancs)

<sup>7</sup> Rationalism refers to reliance on reason as the basis for establishment of religious truth; a theory that reason is in itself a source of knowledge superior to and independent of sense perceptions; a view that reason and experience rather than the non-rational are the fundamental criteria in the solution of problems. (Merriam Webster, 2012)

In the 16<sup>th</sup> and 17<sup>th</sup> centuries, the great flow of gold and silver from the Americas to Europe inflated prices and profits and sped up the accumulation of capital, which is a characteristic core of modern capitalism. As suggested by the theory of capitalism that a market can correct itself, inflation redistributed the income from landlords and wage laborers, whose real earnings declined, to merchants, manufacturers and commercial farmers, who were more likely to invest in new and productive enterprises. (Nafziger, 2005)

Capitalism, as an engine for growth, went beyond the borders of Europe to the United States, Canada, Australia and New Zealand and was more successful in the U.S.A than in any other Western country. It has been prescribed for many countries trying to achieve development.

## 2.2 The Washington Consensus and neo-liberal thinking

Niam (1999) defines the Washington Consensus as "a set of rigid almost unalterable, theoretical propositions about which the powerful and the knowledgeable had, without a doubt, widespread as a solution to countries struggling with economic development." Its main aim was to serve as a list of policy reforms that had been suggested by the International Monetary Fund (IMF) and World Bank for countries that seek a turnaround in their current state of development. The general ideas derived from the Washington Consensus had a huge influence on the economic reforms of many countries, including Ghana which joined the World Bank and the IMF September 20<sup>th</sup>, 1957. These countries, however, have interpreted and implemented the policies in different ways. In all, Washington Consensus is comprised of ten policy prescriptions which have reigned unchallenged for only a short time. (Niam, 2000)

They include:

1. Fiscal policy discipline, with avoidance of large fiscal deficits relative to GDP.
2. Redirection of public spending from subsidies (especially indiscriminate subsidies) toward broad-based provision of key pro-growth, pro-poor services like primary education and health care and infrastructure investment.
3. Tax reform, broadening the tax base and adopting moderate marginal tax rates.
4. Interest rates that are market determined and positive (but moderate) in real terms.
5. Competitive exchange rates.
6. Trade liberalization: liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs.
7. Liberalization of inward foreign direct investment.
8. Privatization of state enterprises.
9. Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions.
10. Legal security for property rights.

Changes in the international economic and political environment and new domestic realities in the reforming countries created problems that the Consensus had not factored in its prescription. From point 2 of the consensus, one may question what is the guarantee that if subsidies are removed from, for example, petrol, and re-directed towards building gargantuan projects, these projects will be completed or funds will even be properly allocated? Usually, the poorer section of the economy ends up unable to afford transportation when this happens. In point 4, the consensus argues for market determination of interest rates but fails to propose any antitrust laws, ensuring the institution of regulators for correction when rates are artificially high because of collusion. From point

8, though there is no denying that privatization is useful, there are no strategies on how to use income generated from the liberalization. Also, point 9 stipulates that there should be deregulation of markets. This could encourage the flooding of markets with inferior goods and services from other countries. All this has brought a need for new answers on how to attain development.

Some of these new solutions to economic development have often complemented the recommendations originally offered by the Washington Consensus, while some have also countered them, emphasizing the need for controls on foreign capital or exchange rate regimes. This study does not suggest that the Washington Consensus is a complete failure, but proves that there is a need to complement rather than discredit it completely. Joseph Stiglitz(1999) stresses that the answers to a country's developmental problems are less likely in black and white, but more in a shade of grey. In other words, there should not be two separate dominant paradigms (focus on markets and government planning) for development. Countries have followed the prescriptions of the Washington Consensus to the very last letter (e.g. the U.S), or given their governments enough power to have complete control of every sector of their economy (e.g. Cuba), yet their economies have still managed to hit a wall, indicating that there might be some loopholes which neither paradigm can paradigms cannot fill on its own.

Market failure occurs when conditions such as externalities of public goods that can be obtained with payment, the presence of perfect competition and a complete set of markets are non-existent or not

satisfied. (Jones & Netter, 2008) When this occurs calculated steps by the government to intervene and correct each market failure may be necessary--for example, putting in place pollution taxes to correct for environmental damage or human detriment. The market itself has its inefficiencies which governments of East Asia realized they would need to correct. The governments were given certain limited roles which included making the markets work more effectively by, for instance, regulating financial markets, creating markets where they didn't exist and creating an atmosphere conducive for private investment and ensured political stability.

Amoah(2012) gives his opinion of neo-liberal policy thinking which led to the creation of the Washington Consensus. Under the Economic Recovery Program (ERP)/Structural Adjustment Program (SAP) of the World Bank and the IMF, government intervention in any shape or form and whatever conditions in Africa is unacceptable. The market is seen as an 'engine of growth' and as such, subsidies on public goods like health and education are totally scrapped. His article also discredits the neo-liberal policy thinking with regard to the prominence of market mechanisms and the indifference to the importance government intervention. He further explains that there is the need for 'the rise of Africa's Neo-Elites; a front line of intellectuals who will be conscious of and engage the "ideational" challenges of the constantly changing nature of the international political-economy. (Amoah, 2011) These people will link vital segments of society such as academia, business and civil society among others and find solutions to economic development problems suitable for the African context.

Dr. Amoah makes a valid assertion, but the Neo-Elite need not completely scrap the prescriptions of the Washington Consensus or capitalism itself, but rather build upon it by playing their role effectively to ensure that the markets are, indeed, efficient. In Africa, where most countries are plagued with corruption, it may take a while for this team of intellectuals to rise up, making it necessary to establish institutions that prepare young African minds to be the change the continent needs.

### 2.3 Alternative models of development (East Asia in perspective)

Park (2002) emphasizes the validity of the East Asian model as a strategy for the economic development of developing countries. The efficacy of this strategy has recently been questioned due to the recent Asian financial crisis. There are doubts about its appropriateness and sustainability for other developing countries seeking economic development. Considering that countries like South Korea followed the model and have been successful in their development despite the financial crisis, it is quite evident that the model has not lost its vigor. Taiwan was even able to avoid the East Asian crisis of 1997 to 1998 altogether, and has continued to grow at a respectable rate. The model is, basically, state-driven capitalism which enables the economy to combine the dynamic aspects of a market-oriented economy with the advantages of centralized government planning and guidance. The Asian countries' transformation into export powerhouses and their spectacular economic growth are due to this model of guided capitalism.

Even though there is no homogeneous East Asian model of economic development, government intervention in the Tigers' industrialization experience, occurred with all the East Asian Tigers. It begins with the Japanese case of government-directed industrialization, South Korea and Taiwan following the Japanese with state-directed production and exports for the world development, then the two city-states of Singapore and Hong Kong with completely open "free ports" to the outside world.

South Korea's government structured approach to development is known as the "big is beautiful" and that of Taiwan as "small is beautiful." While Korea's economic policy was geared towards obtaining rapid economic growth, Taiwan made economic stability its top priority. In other words, Taiwan sought to make sure that its economy remained in good shape in the long run while South Korea only focused on its immediate situation without ensuring that its economic success would not fade. South Korea's economy was dominated by big business conglomerates like Hyundai, Lucky-Goldstar and Daewoo, known as "Chaebol," while in Taiwan small and medium-sized enterprises (SMEs) played a central role in economic growth and development. While SMEs were given little or no consideration for government support in South Korea, Taiwan's government nurtured the spirit of individual entrepreneurship through SME establishments. The selection of prioritized industries to be developed in South Korea caused the Chaebol to become uncontrollably big and powerful, which pressured the government to prematurely deregulate and liberalize the financial markets. The government's ability to control and regulate international short-term capital flow was reduced.

In Taiwan, the Kuomintang (KMT) regime put in place economic policies which were targeted at preventing inflation, financial instability and the concentration of private capital, through the use of tight regulation and control of the financial sector, and the policy of avoiding excessive concentration of private capital. The huge reliance on household networks and small loans from a number of banks is largely responsible for shaping the Taiwanese industrial structure. There were no huge concessionary or special loans as compared to South Korea, and their debt-equity ratios for Taiwanese firms were much lower those of South Korea, since banks were not willing to lend large amounts to individual firms. Taiwan's anti-inflationary policy, along with high rates of saving, was also helpful in boosting capital accumulation and growth. (Park, 2002)

Taiwan didn't have to depend heavily on foreign borrowing to finance domestic investment. According to P.H Park, from 1971 to 1994, Taiwan was able to finance its whole gross domestic capital formation out of inwardly produced savings which reduced its vulnerability to foreign debts and external shocks. While South Korea relied heavily on foreign borrowing and disallowed foreign direct investment (FDI), Taiwan opened its doors to foreign investment which helped form capital, and also was an important vehicle for technology transfer. The difference in the strategies used by both Tigers shows that depending on how government intervention is structured and implemented, it could either make or break the economy.



## 2.4 Aid and political stability and its link to capitalism and development

Dani Rodrik (2000:80-107) writes about how South Korea and Taiwan were plagued with coordination failure before the 1970s. Labor skills, technologies and capital require a large-scale movement to benefit from internal and external economies of scale. In order to coordinate and mobilize resources needed for the economic transformation and sustainability, Taiwan and South Korea employed Big Push Strategies. Wayne Nafziger's *Economic Development* states that those who advocate a coordinated application of capital to all major sectors believe that gradually allowing all sectors to grow at the same pace leaves the economy susceptible to doom. It compares a stagnant economy in search of growth to a car being stuck in snow; it will not move with a gradual push but a big one. To successfully implement this push, both Korea and Taiwan received a substantial support from the United States in the form of aid, capital inflows and a growing demand for manufactured goods in Asia, enabling them to accumulate the resources available for mobilization.

Consistent with the capitalism-induced neoclassical economic thinking, that argues for an infusion of capital to spur development, It seems capital in the form of aid did play a significant part in the state-led capitalism strategy of the Asian Tigers and so could be useful to Ghana as well. Armah (2010) underlines the economic relevance of the relationship between aid and growth in Sub Saharan Africa, and digs deeper into the influence of political stability and economic policies on the aid-growth relationship. According to his findings, aid is more effective at higher levels of stability. That is to say, stable Sub-Saharan African countries

would be more likely to reach the millennium development goals when provided with aid, as compared to politically unstable ones. He points out that aid may reduce poverty in these unstable countries but not necessarily spur on growth. This can be seen as the reason why despite the enormous amounts of aid provided to Sudan, Somalia Liberia and Congo, they still perform poorly economically. Ghana, in contrast, is rather stable and has used aid to spur growth but have still not reached Amartyr Sen's definition of development.

In Joyce Meng's article *Ghana's Development; Miracle or Mirage* writes about Ghana after independence. Dr. Kwame Nkrumah, the first president of Ghana who had led Ghana to independence, instituted wide spread industry reforms including a Big Push strategy which involved concentrating high rates of capital formation through domestic production of import-substitutes in SMEs. Debt however spiraled out of control due to expensive investment in ambitious projects that became huge fiascos. Examples are the mango-processing plant and the corrupted hide-leather complex.<sup>8</sup> Political pressures lead Nkrumah to resort to oppressive means to secure a one-party state. Public discontent, however, led to Nkrumah's administration being ousted by February 24<sup>th</sup> 1966. Since Nkrumah's departure Ghana has tried and failed to achieve the type of economic achievement it was projected to have attained, and has had to deal with regime change, economic decline and chaos.

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<sup>8</sup> The mango-processing plant and the corrupted hide-leather complex were established in the 1960s by Dr. Kwame Nkrumah as part of austere budgetary measures put in place when economic growth decreased from between 95 to 12% to between 2% and 3%. (Annor, 2009)

Another reason for most African countries' inability to reach the stage of development, despite massive aid given to them to build up their economies is the fact that African countries are forced to use specific Western strategies that may not necessarily suit their context. This situation is worsened by corrupt governments that refuse to see the bigger picture, and rather choose to misappropriate aid to their own benefit. Having a vanguard of socially conscious leaders, as proposed by Dr. Lloyd Amoah, whose sole aim is to make sure the economy thrives could solve this problem and lessen the dependence on aid. Even more effective would be the presence of institutions that would serve as constraints to shape human interactions. (Acemoglu, Johnson, & Robinson, 2005) Economic institutions encourage economic growth and these emerge when political institutions allocate power to groups with interests in broad based property rights enforcements and create effective constraints on power holders. Political institutions influence the structure of economic institutions in a given economy. A combination of stable governments with good institutions would even go as far as to remove effects of over-dependence on donor countries

### 2.5 Leadership and emphasis on education

It is hard to talk about Singapore's economic transformation without talking about Lee Kwan Yew. Considering that Singapore by far is the smallest country in South Asia, Singapore was destined to be a client state of its more powerful neighbors if indeed could even preserve its independence at all. While others predicted doom for the country when it finally achieved its independence, comparing the withdrawal of British from Singapore to the decline of the Roman Empire when law and order

collapsed after the Roman legions withdrew and barbarian hordes took over, Lee Kwan Yew saw otherwise and only foresaw a promising country. (Yew, 2000)

Lee Kwan Yew made sure Singapore was on the road to development by putting in measures to put all those who doubted to disrepute. He made Singapore a financial center by;

- building up its credibility as a place of integrity while strengthening staff with adequate skills and education,
- cleaning up his government in order to do away with greed, corruption and the decadence of many Asian leaders by accounting for every dollar of revenue made by his government since the day they took and instituting anticorruption law in 1937
- setting out to make Singapore "greener" by establishing an anti-spitting campaign, planting and replanting trees, and removing hawkers that obstructed traffic and caused littering
- managing the media to ensure that they break away from British influence which usually led them to ruthlessly criticized the government.

With visionary leaders such as Lee Kwan Yew Ghana is more likely to move from its current state to greener pastures. To really develop Singaporeans, Lee Kwan Yew encouraged both men and women to achieve the highest level of education and create avenues for employment to keep them in the country. He encouraged women not to just settle for mediocrity. Men were also challenged to marry women who held at least a

first degree from college. Kwan Yew and his government realized that the island certainly would not be able to achieve economic development on its own without developing a strategy focused on improving education. (Spa, 2009) He made sure all necessities, including jobs and housing, were put in place to provide a suitable environment that encouraged education.

### **3.0 METHODOLOGY**

#### **3.1 INTRODUCTION AND JUSTIFICATION OF RESEARCH METHOD (STUDY TYPE)**

The research employs a case study analysis. A case study is typically an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and multiple sources of evidence are used. (Sarantakos, 2004) The countries involved in this study are the East Asian Tigers which include South Korea, Taiwan, Singapore and Hong Kong.

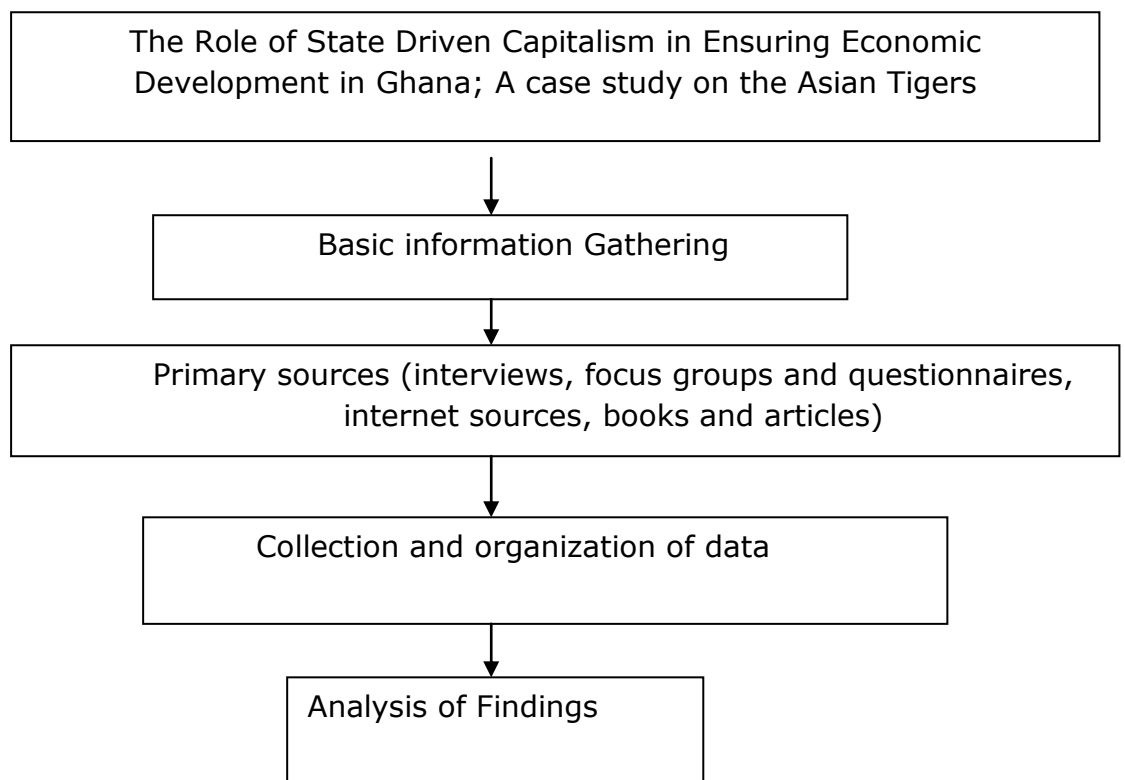
The study delves into the strategies used by the Asian Tigers in attaining economic development and the role of government in ensuring the success of these strategies. This was a collective study which included a number of single studies to look at the phenomenon which is the miracle of the Asian Tigers. This investigation required qualitative analysis since it takes it considers policies, institutions and strategies that could lead to sustainable economic growth and development. Unlike quantitative methodology, qualitative methodology is diverse, pluralistic much like the cases being studied in this research. It may have internal contradictions because it contains elements from many different schools of thought. (Sarantakos, 2004) This includes the analysis of theories on economic development models and those used by the Asian Tigers that proved beneficial and can be used in the Ghanaian context. Some quantitative methods were also used to analyze part of the data.

- The study area was Ghana from the time of independence until now, taking into consideration developmental strategies,

their successes or failures and what can be done to make the economy better. The researcher used:

- literature analysis to break down the relevant texts in this matter,
- surveys to obtain the opinions of citizens in the country on how the involvement of the government could be beneficial,
- focus groups to have a more in-depth analysis of benefits of taking developmental lessons from the Asian Tigers,
- interviews with people knowledgeable in the field of economics or economic development.

### 3.2 RESEARCH PROCESS



### 3.3 DATA COLLECTION

This involved:

- **Gaining Access:** The researcher had to gain permission to obtain more information on economic development by meeting the appropriate people and establishing contacts. A formal letter from Ashesi University was handed to the participants to verify that the researcher was a student of Ashesi University.
- **Data collection:** The highly qualitative nature of the topic led the researcher to attempt to identify trends, uncover meanings, and make sense of the situation under study. The sample size was 45 and sampling procedure was both snowball and purposive to select respondents for the interviews, questionnaire and focus group. Purposive sampling was used since the researcher had a good idea of the type of respondents needed, especially for the interview. Even the questionnaire was not randomly handed out, since the topic required people knowledgeable in the field of economics. The snowball method was used mainly in selecting members for the focus group, since the members were suggested by Dr. Stephen Armah.
  - Interviews: These were structured to obtain responses from economists and those knowledgeable in the field of economics or economic development. Eleven interviewees were used. This included lecturers from the economic departments of University of Legon, Central University, The Ghana Institute of Management and Public Administration (GIMPA) and the Ministry of Finance and Economic affairs. An



interview guide was used to obtain quicker more accurate responses. This made it more convenient for interviewees with busy schedules.

- Focus Group: this consisted of;
  - Mr. Edward Abrokwah, an economic consultant to the Ministry of Finance and Economic Development. He is a 2006 graduate of Cornell Institute for Public Affairs (CIPA) with a MPA degree. (Lennox, 2008)
  - Mr Attah Dabone, a member of the National Economic Development Planning Commission and former faculty intern at Ashesi University.
  - Maame Serwah Saifah, a student of Ashesi University who studied Economic Development. Maame Serwah was recommended by Dr. Stephen Armah, the lecturer who taught her development economics.

The purpose of the focus group was to have a more in-depth analysis of what economic development really is, and just how crucial a state direction may be for allocation of wealth and resources in an economy, while still using the Asian Tigers as a benchmark.

- Questionnaires: This was meant for ordinary citizens of Ghana who have some knowledge or insight about the economic development of the country as well as political issues. Thirty citizens were used for the study.

- **Recording of Data:** This was done by recording data chronologically, and preparing them for analysis when the study is complete.
- **Partial Data Analysis:** Some level of analysis was needed in the data collection process to decide which parts of the interaction or observation were worth recording and filing and also how to categorize them.
- **Disengagement:** This has to do with maintaining positive relationships with the respondents. It was important to let them know that their assistance was well appreciated and provide follow-up information if necessary.

### **3.4 ANALYSIS AND INTERPRETATION**

The process of data analysis involves:

- Focusing on the gathered data, reading them within the context of the setting and the research purpose, and employing a basic descriptive content analysis.
- Identifying chunks of data that demonstrate some commonalities and assign codes if necessary.
- Noting thoughts and initial reflections on parts of data in memos.
- Putting the information gathered together to construct a persuasive argument that answers the research question.

## **4.0 ANALYSIS AND DISCUSSION OF RESPONSES**

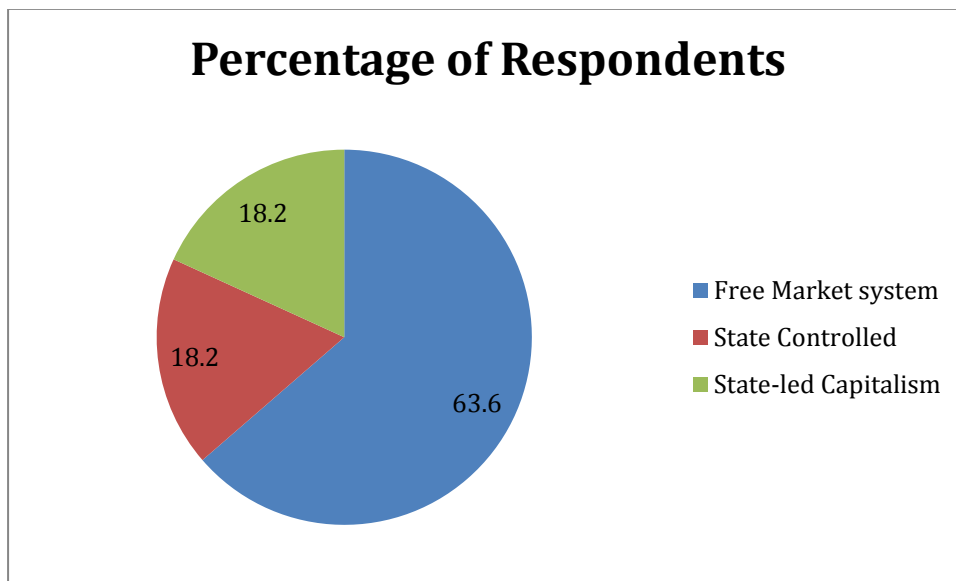
This section synthesizes the information gathered from the interviews, questionnaire and focus group as mentioned in the methodology. Appendix 7.4 provides details on the demographics concerning the area of study.

### **4.1 INTERVIEWS**

#### Economic growth vs. economic development

To a large extent many respondents from the interviews echoed many of the theories cited in the literature review. According to the responses, growth is just the general rise in the level of economic activity for a specified period. Development, on the other hand, involves aspects of improvement in the welfare of people in a defined economic setting. At the most basic level, one can have growth without development, however empirical evidence on sustained development (i.e. outside of aid sources), states that growth is needed to generate the resources for investment in the kind of public expenditure that results in development. Development cannot do without growth, but actually encompasses economic growth, which deals with a country's real level of national output and goes a step further to reflect qualitative changes in the lifestyle of people. The feedback also reported that to achieve economic development, a country must have achieved sustained growth for long period of time to be able to establish the necessary institutions to promote the wellbeing of people.

The economic system best suited for Ghana’s context for economic development



**Figure 1**

**Data source: Field data**

Most of the interviewees (see Figure 1) believe in the efficiency of the free market system. They believe that this system ensures wealth is efficiently allocated and resources are efficiently utilized through an “invisible” and unbiased hand in theory. The United States of America, which has become a beacon for free market capitalism, put in a major push to deregulate highly regulated institutions and industries or, in other words, privatize what was once subsidized in the public interest to allow the “magic of the market place” occur. (Sweetland, 2002) Measures were also taken to reduce government intervention, especially in the areas of finance. The Internal Revenue Service (IRS), for example, was required to cut back on rules, regulations and personnel. All measures put in place satisfied the theoretical assumptions of a free market system, but instances of saving and loan foreclosures, and predatory practices in

industries such as the telecommunications industry did not do much to advance the public good. (Sweetland, 2002) The markets have developed over the years and have grown stronger, but the fact still remains that translating theory into practice has proved less than perfect. Even if these free market mechanisms could make a significant difference in a country's economic standing, Ghana, having a minimum wage of GHC3.73 (\$2.09) may not be able to stand the impact of privatization and the price inflation it may come with.

One respondent noted that considering how Ghana is a developing economy, it lacks the experience and market discipline to pursue the most optimal option, which most likely is state-led capitalism. Over-reliance on the government may lead to a struggle to adequately satisfy the needs of citizens and tackle every single economic issue of the state.

#### Importance of institutions

The fundamental explanation of comparative growth in different economies lies within the difference in institutions in different countries. (Acemoglu, Johnson, & Robinson, 2005) Findings from this researcher's primary sources suggest that the type of economic system used may determine whether or not the appropriate institutions will be put in place. According to one respondent, even though the free market system in principle does not result in the creation of good institutions it could, however, force the development of such institutions, as it inherently challenges existing inefficiencies. This may be possible since most privately-owned businesses manage their resources and performance of their output rather efficiently, considering that their sole aim is to make profit. This could influence the rise of economic institutions that would be

strengthened to serve as checks for economic development rather than government manipulation.

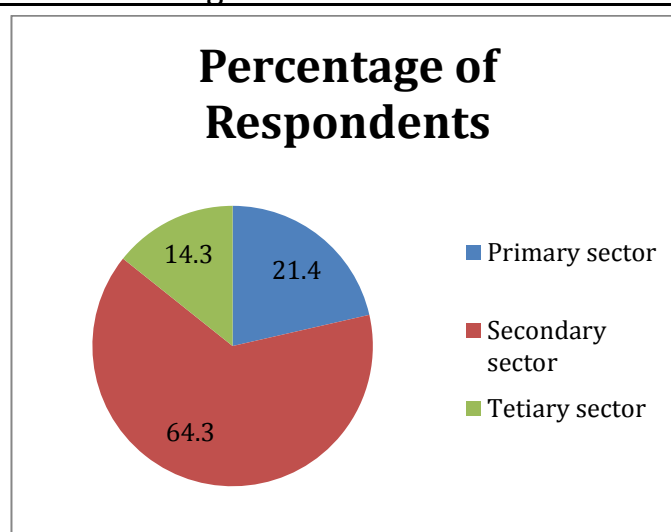
In the case where the free market capitalism fails, however, government intervention is supposed to serve as a means to provide those institutions. The question is: should government intervention come in only when the market fails? Even though most of the respondents felt that a free market was superior to other systems, the fact remains that the government puts in place political institutions that inevitably influence economic institutions directly and indirectly. In other words, considering the framework proposed by Acemoglu, Johnson and Robinson (2005), there is a natural concept of a hierarchy, with political institutions influencing economic institutions, which then determine economic outcomes. Both the economic and political institutions, when they work hand in hand, could ensure that economic development is achieved.

#### The private sector and government intervention

When asked what role privatization should play in economic development, one respondent noted that the private sector should be the engine of growth. It can help in effectiveness and increase output of most institutions and businesses. Another stated that privatization is food for non-performing state enterprises, as it improves efficiency and productivity. Privatization directly shifts the focus from political goals to economic goals which lead to development of the market economy. Nonetheless, it was also evident from the responses that the government creates an enabling macro environment for the private sector to be the engine of growth. Unfortunately in Ghana's context, political interference normally leads to nepotism, cronyism and tribalism, which could block

development. Good governance ensures law and order, which is a necessary condition for development. The findings concluded that economic development is greatly influenced by a country's system of government, especially through the promotion of institutions for skill development and the promotion of free enterprises.

Sectors in which government intervention is needed



**Figure 2**

**Data source: Field Data**

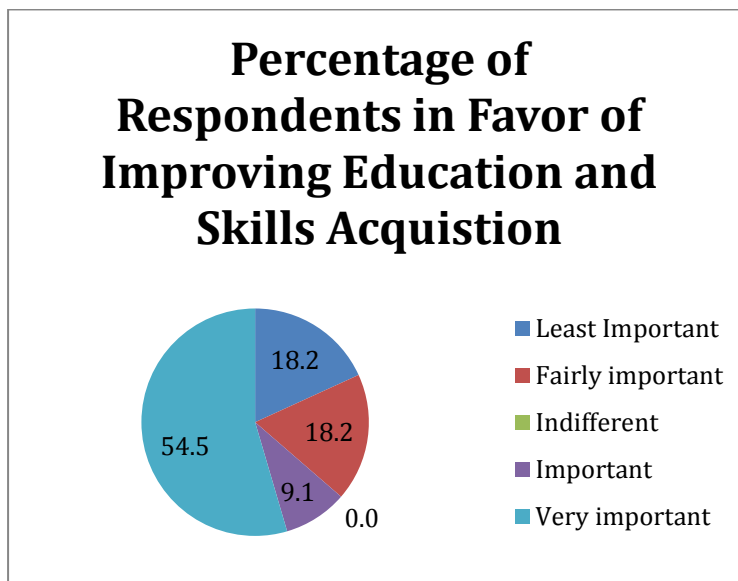
A country's economy is divided into various sectors to effectively define the proportion of the population engaged in the activity sector. These are the primary sector, secondary sector, and tertiary sector. The primary sector is the part of the economy which deals with the extraction or harvest of products from the earth. The activities in this sector include mining, forestry, farming, grazing, hunting and gathering, fishing and quarrying (Urban Economic Georgraphy, 2012) The secondary sector, which is involved in manufacturing, seems to be the sector which needs

the most development in Ghana and could ultimately lead to sustainable economic growth. The activities include metal working and smelting, automobile production, textile production, chemical and engineering industry and the like. (Urban Economic Georgraphy, 2012) The tertiary sector is involved in the provision of services such as wholesale and retail sales, transportation and distribution, entertainment, tourism, etc. (Urban Economic Georgraphy, 2012)

Figure 2 suggests Ghana's secondary sector is in need of a facelift in order for this sector to actually contribute to economic development. In other words, it would benefit the economy greatly if the majority of goods were manufactured and eventually sold in Ghana. It would promote economic development in the sense that it would encourage the acquisition of skills and create more room for development. It would also reduce Ghana's overdependence on the foreign goods currently flooding its markets. Considering Ghana's stage of development it would be ideal to build up the secondary sector before advancing to the tertiary sector, especially when it comes to wholesale and retail. Figure 2 also points out that even the primary sector needs some work. Ghana is already resource rich but it would be more profitable if its natural resources were put to use in the country instead of exported to foreign countries. The government should be responsible for ensuring that the wholesale and retail, especially, are centered on locally produced goods which can only be achieved by promoting the manufacturing industry.



## The East Asian model (state driven capitalism) in Ghana



**Figure 3**

**Data Source: Field Data**

Figure 3 shows that more than half the respondents agreed that there is the need for a nationwide focus on the provision of at least basic education and skills by the government. Education is seen as one of the social structures to provide a basis for development or it can be perceived as a vehicle for transmitting those values and attitudes supportive of development. (Morris, 1996) With regards to the Asian Tigers' remarkable turn for the better in terms of economic development, the *Economist* (1991) remarks that "...investing in education pays in spades. The Tigers' single biggest source of comparative advantage is their well-educated workers." The IMF (1991) also commented that "one lesson from the past is that the economies-- such as Japan and South Korea--which committed themselves to education and training made great strides in both human development and economic growth." The data buttress the fact that equipping a country's human capital with the necessary skills and

education is absolutely necessary especially for those trying to reach development.

## **4.2 QUESTIONNAIRE**

### Institutions necessary to support state-driven capitalism

From the data collected it was unanimous that institutions play an essential role in ensuring development. Appendix 7.5 and 7.6 is a collection of favorable and unfavorable institutions listed by the respondents of the questionnaire grouped into political, social, economic and legal institutions. North (1981) defines institutions as a set of rules, compliance procedures and moral and ethical behavioral norms designed to constrain the behavior of individuals in the interests of maximizing the wealth or utility of principals for example constitutions and electoral rules. (Glaeser, Porta, & Lopez, 2004) These institutions must be reasonably permanent or durable. The presence of political institutions imposes constraints or checks on governments to ensure that they do not misuse the powers bestowed on them by virtue of their position for their own benefit. As stated before, political institutions have direct or indirect effect on economic institutions and as such a stable government is absolutely necessary for every economy.

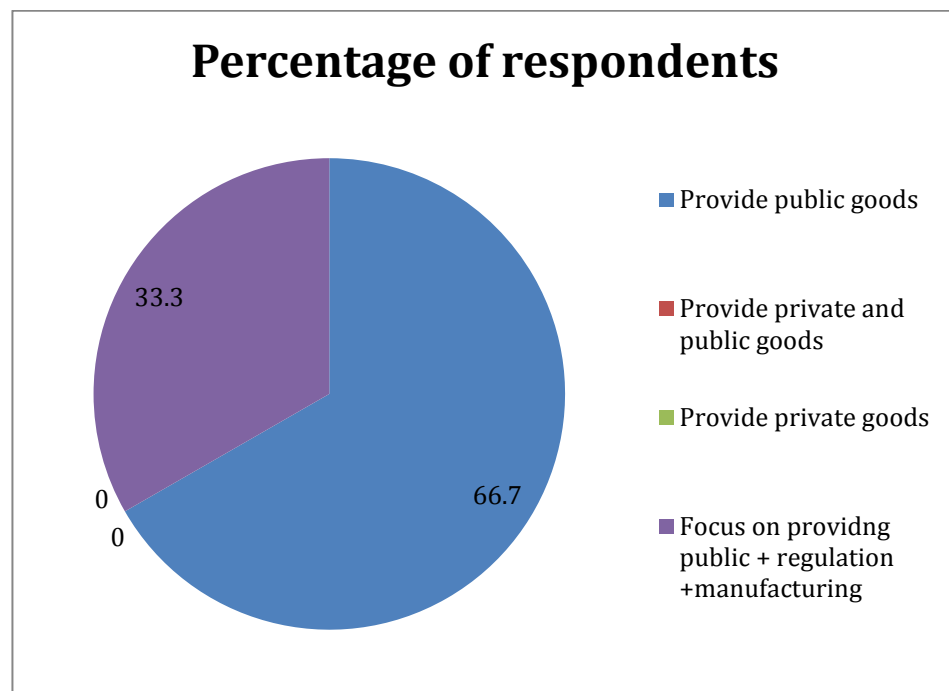
### Disadvantages of government intervention

Most African economies have been plagued by power-drunk government officials who have retarded more than they have promoted the development of their country's economy. These countries lack the institutions to regulate the government and make sure that work is being done to improve the macroeconomic environment. Some disadvantages of

government intervention in Ghana as found in the responses to the questionnaire include:

- Political instability leading to an unfavorable environment for market activities
- Inefficient use or misappropriation of national resources
- Abuse of political power
- Corrupted practices in public offices
- Lack of commitment to completing public projects
- Misappropriation and poor regulation of taxes and other state funds
- Embezzlement of funds needed for national projects

### 4.3 FOCUS GROUPS



**FIGURE 5**

**DATA SOURCE: FIELD DATA**

Figure 5 collated data from the focus group and shows the importance of the government focusing on providing public goods (roads, electric power and security), close market failures where they arise and take the lead in organizing manufacturing but then allow the state manufacturing sector to run on market principles. The respondents recognize the importance of government intervention as well as the benefits of using free market principles to most especially for the manufacturing sector.

Regardless of this, Ghana's economy may encounter some problems trying to put in place state-driven capitalism. Mr. Edward Abrokwah stated that this system requires a level of market discipline he believes Ghana does have, hence when the state is pulled back

from the frontiers and only allowed to regulate, these state supported institutions just won't be globally competitive. This goes back to the fact that the government needs to hit the ground running to ensure that macro-economy is suitable for the market to thrive.

## **5.0 CONCLUSION AND RECOMMENDATION**

### **5.1 RECOMMENDATIONS**

From literature and data collected from this research it is evident that free market capitalism may be appropriate for economic development in theory but in practice, may require more government intervention than in the form of regulation when the market fails. A country's government holds enough power both within the country and outside its boundaries to exert a considerable amount of influence on its economic development. The problem with an economy such as Ghana's is that the government of the day may have power but not enough resources to buttress that power, and make commendable contributions to the economy.

Government institutions put in place to regulate tax collection, for example, which should form a major part of public funds, are close to obsolete. Our tax system is devoid of unregistered individuals who operate as sole traders. The government is at fault for not strengthening tax reform policies, and reinforcing the obligations and commitments that citizens have to the country and community to pay their taxes. When the appropriate tax systems are put in place for income earners to pay their taxes, the government would rely less on loans and grants for development projects. Budget allocations can be made more readily available for projects for take-off schedule. (The Statesman Online, 2007)

Morris (1996) explains that there are two broad approaches to explaining development. One approach focuses on the structural and institutional factors that are critical for development including free markets or managed markets, export oriented trade policies and efficient honest bureaucracies, investment in physical and human capital and

strong and purposeful governments. The other, which is the investment in human capital, is the top most priority considering the high role of high-level manpower in development. Findings indicate that at the primary level, the rates of return are higher from education than from investing in physical capital and the returns for general education are greater than those for technical and vocational education. (Morris, 1996) There is the need for more investment in education and skills development, or even better, free education, which can be more efficiently provided and evenly allocated region-wide by the government.

Public private partnerships could also be of immense benefits to economic development since they allow both sides to complement each other and fill in whatever gaps that either sector may have. The private enterprise can aid in ensuring productivity while the public ones can allow the private enterprise to gain access to national resources that would have been otherwise out of reach to these private enterprises. Industrial growth can be stimulated by government intervention and policies through the encouragement of sectors where the country has comparative advantage relative to the rest of the world. Also, state-led industries allowed to run on market principles will increase government revenue to support the provision of public goods.

## 5.2 CONCLUSION

Capitalism comes in different forms and making it necessary for an assessment of a country's economic standing and potential and work towards what suits its context best. International experience suggests, for example, the transport systems, highways and energy utilities generally work better under private management and ownership than under state control, even though strategic direction from government is necessary to achieve social objectives through taxes on pollution, subsidies for social benefits of public transport, research on new technologies, insurance for nuclear installation and premium tariffs for renewable power. (Kaletsky, 2010) Even in free market capitalist nations like America, 89% of households are served by public-sector water utilities. To reduce debt it may be advisable to privatize these public enterprises. This study is not meant to dispute that, but to argue that government intervention is still needed in those enterprises so that prizes, for example, do not rise so high that the average citizen would not be able to afford and maintain international competitiveness.

Kaletsky (2010) divides capitalism into 4 types. Capitalism 1 where there were almost no government responsibilities for social services and hence no serious revenue problems. Capitalism 2 saw the rapid expansion of social entitlements, leading to unacceptably high taxes. Capitalism 3 from the 1980s onward, believed it could square the circle by slashing all government programs except those related to health and pensions This, however, was reaching the limits of political and fiscal tolerance as the crisis struck and demolished the Capitalism 3 model. Post-crisis capitalism, with the government destined to play a much bigger role in



the economy through demand management and financial regulation, maintained a reasonable balance of power between the private and public sectors. This, however, may require that the government retreats from some or all of the social fronts, such as health, education and pensions. Again taking into consideration context and the fact that Ghana has a rather high poverty level the government would have to exercise some tact in order not worsen standards of living by relinquishing the responsibility of running public enterprises to the private sector. A better option would be as suggested before, to run some of these enterprises on free market principles, bearing in mind that there is a section of the general public in need of affordable and even free public goods and services.

In essence, this research affirms that government intervention is not needed only when the market fails; neither is the role of the government only limited to regulation for a country like Ghana. In developing countries such China and India, where educational standards and life expectancies are rising most rapidly, the responsibility of ensuring human development are left largely to the private sector and to market forces, despite the fact that populations are much poorer and less well-informed. (Kaletsky, 2010) A country's context determines just how much government intervention is needed in the markets. Taking a cue from the Asian Tigers, Ghana, which in itself is a rapidly developing country, needs to first put in place development oriented governments that will put in place good political institutions creating an environment suitable for economic institutions. This, in turn, will also enhance the human capital and promote economic development.

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## 7.0 APPENDIX

### 7.1 INTERVIEW GUIDE

The purpose of this questionnaire is to uncover the role state-driven or mixed market economic system should play (if at all) in stimulating economic development in Ghana. Please rest assured that all information provided will be used confidentially and is only for the purposes of academic research.

1. What is your current age in years?

.....

2. Sex: Male / Female (Please circle the appropriate answer)

3. Religion: Moslem, Christian, Traditional African (Please circle the appropriate answer)

4. Location City/town or village.....

5. Educational background  
Primary /JSS Bachelor's Degree Masters  
Doctorate (Please circle the appropriate answer)

6. Occupation:  
.....

7. How does economic development differ from economic growth in your opinion?  
.....  
.....  
.....  
.....

8. Which economic system would best suit Ghana's context?  
Free market State controlled State-led capitalism  
(Please circle the appropriate answer)

Why?.....  
.....  
.....  
.....  
.....

9. With regards to your answer above, do you think the choice you made will guarantee good institutions in Ghana? Yes / No (Please circle the appropriate answer.)

.....  
.....  
.....  
.....

10. Are good institutions important for development? Yes / No (Please circle the appropriate answer.)

Why?

.....  
.....  
.....  
.....

11. How should the state lead development in Ghana (please rank in order of importance. 4 indicates the best choice and 1 indicates the worst choice)

Provide public goods (roads, electric power and security) but not private goods like housing

Provide private goods like housing, food and transportation in addition to public goods

Focus on provision of private goods like housing and food to assist the poor

Focus on providing public goods (roads, electric power and security), close market failures where they arise and take the lead in organizing manufacturing but then allow the state manufacturing sector to run on market principles.

12. What role should privatization play in economic development?

.....  
.....  
.....  
.....

13. What role should government intervention play in economic development?

.....  
.....  
.....

14. Do you believe that a country's economic performance is influenced by its system of governance? Yes/ No (Please circle the appropriate answer.)

How?.....  
.....

.....  
.....  
.....

15. In which areas of Ghana's economy do you recognize huge market failures?

Primary sector      Secondary sector      Tertiary sector (Please circle the appropriate answer)

16. What role should the government play in developing this sector?

.....  
.....  
.....

17. How should government intervention in this sector be structured?

.....  
.....  
.....

18. Which of Asian Tiger strategies do you believe are best suited for Ghana's context? (Please rank in order of importance. (5 indicates the best choice and 1 indicates the worst choice)

State-directed production and international trade (South Korea, Taiwan, Japan),

The promotion of small and medium enterprises nationwide (Taiwan)

The promotion of big business conglomerates (South Korea),

Anti-inflationary policy (Taiwan),

Nationwide focus on improving education and skill acquisition (Singapore)

Other.....  
.....  
.....

...

19. Are you aware of any African-brewed or Ghanaian-brewed theories or strategies of development? List three

.....  
.....  
.....

20. What African-brewed or Ghanaian-brewed development strategies will work in Ghana?



## 7.2 FOCUS GROUP QUESTIONNAIRE

1. What is your current age in years? (Please tick)  
 10 – 20  
 20 – 30  
 30 – 40  
 40+
  
2. Sex: Male / Female (Please circle the appropriate answer)
  
3. Religion: Moslem, Christian, Traditional African (Please circle the appropriate answer)
  
4. Location \_\_\_\_\_ City/town \_\_\_\_\_ or village.....
  
5. What is the highest level of education you have attained?  
Primary /JSS \_\_\_\_\_ Bachelors Degree \_\_\_\_\_ Masters \_\_\_\_\_  
Doctorate (Please circle the appropriate answer)
  
6. Occupation:  
.....
  
7. How does economic development differ from economic growth in your opinion?  
.....  
.....  
.....
  
8. What should be government's role in ensuring economic development here \_\_\_\_\_ in \_\_\_\_\_ Ghana?  
.....  
.....  
.....
  
9. How should the state-lead development in Ghana (please rank in order of importance. 4 indicates the best choice and 1 indicates the worst choice)  
 Provide public goods (roads, electric power and security) but not private goods like housing  
 Provide private goods like housing, food and transportation in addition to public goods  
 Focus on provision of private goods like housing and food to assist the poor

[ ] Focus on providing public goods (roads, electric power and security), close market failures where they arise and take the lead in organizing manufacturing but then allow the state manufacturing sector to run on market principles.

10. Do you know which countries form the Asian Tigers?

Yes / No (Please circle the appropriate answer)

List 3 Asian Tigers

.....  
.....  
.....  
..

11. Do you know any of any strategies the Asian Tigers used in their quest to achieve their current level of economic development?

Yes / No (Please circle the appropriate answer.)

List three of these strategies

.....  
.....  
.....  
.....  
.

12. On a scale of 1-10 (10 being the highest and 1 being the lowest), how would you rate the necessity of government intervention in the success of the Asian Tigers?

.....  
.....

13. The Asian Tigers used state driven capitalism to run their economy. Could Ghana's economy benefit from this system of development? Please explain

.....  
.....  
.....  
.....

14. The Asian Tigers put special emphasis on education and skills acquisition. Do you believe the necessary institutions have been put in place to ensure that at least basic education is provided?

Yes/ No (Please circle the appropriate answer)

.....  
.....  
.....  
.....

15. Do you think Ghana is capable of formulating economic policies to suit its context?

Yes/no (Please circle the appropriate answer.)

Please Explain

.....  
.....



.....  
.....  
.....  
.....

24. How would you rate the importance of state regulation in the economic development of a country on a scale of 1 - 10? (1 being the lowest and 10 being the highest)

.....  
.....

25. In your opinion, how could state intervention in economic affairs hinder economic development?

.....  
.....  
.....  
.....

26. How should the state lead development in Ghana (please rank in order of importance. 4 indicates the best choice and 1 indicates the worst choice)

- Provide public goods (roads, electric power and security) but not private goods like housing
- Provide private goods like housing, food and transportation in addition to public goods
- Focus on provision of private goods like housing and food to assist the poor
- Focus on providing public goods (roads, electric power and security), close market failures where they arise and take the lead in organizing manufacturing but then allow the state manufacturing sector to run on market principles.

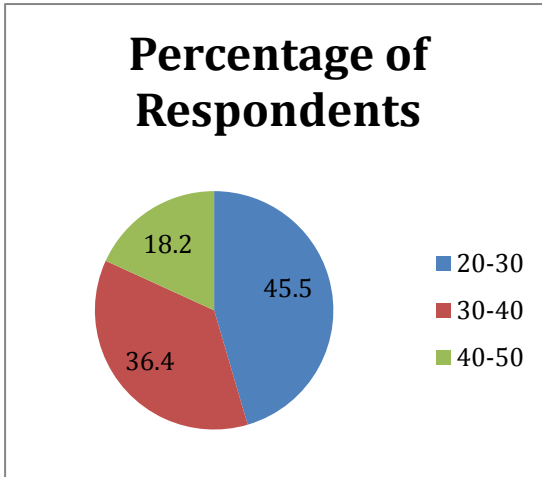
27. Please provide additional comments, observations, or suggestions for economic development

.....  
.....

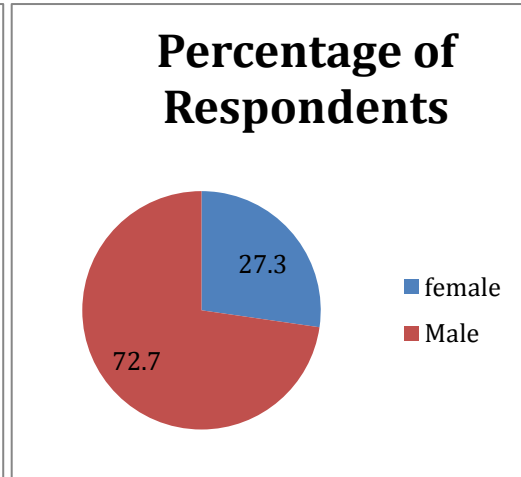
## 7.4 SUMMARY OF RESPONDENTS

### INTERVIEWS

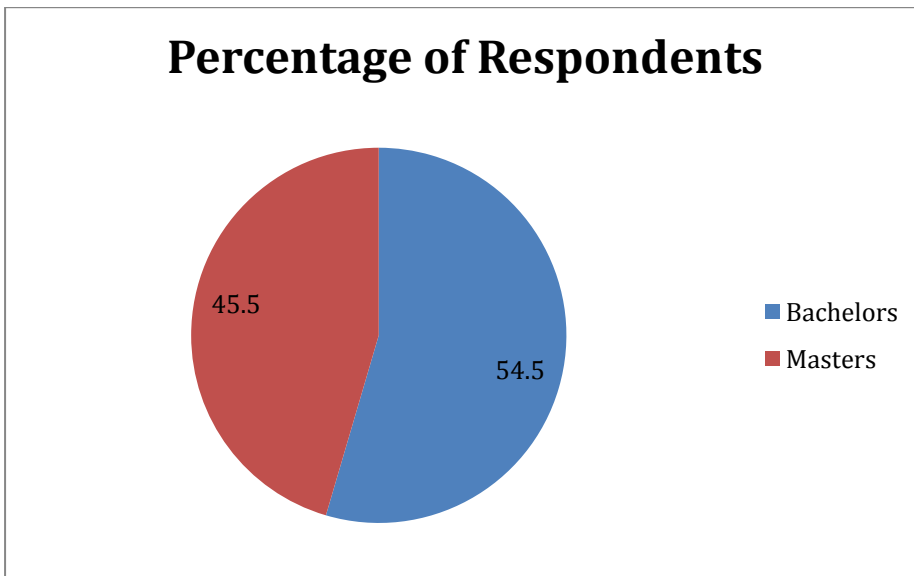
#### AGE RANGE



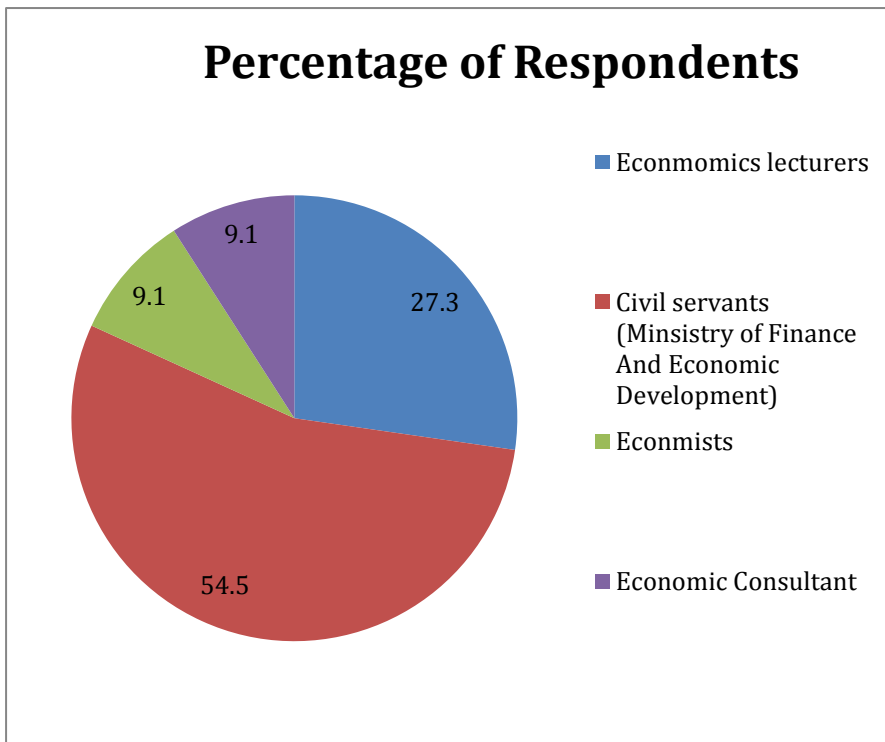
#### GENDER



#### EDUCATIONAL LEVEL

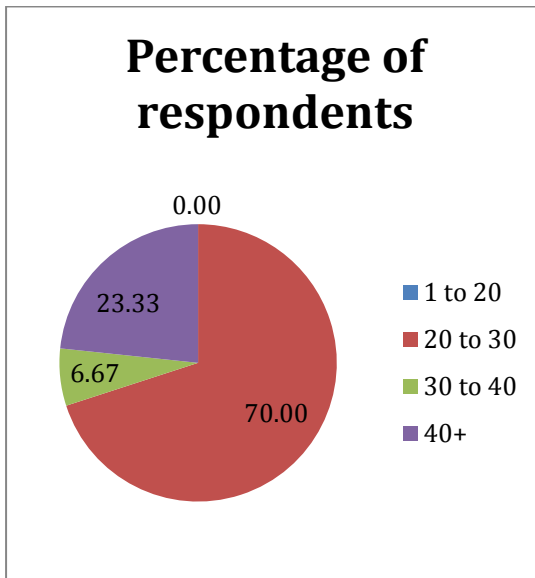


## OCCUPATION

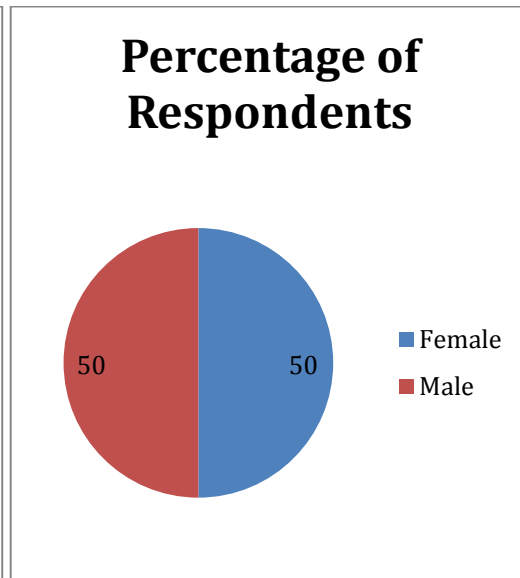


**QUESTIONNAIRES**

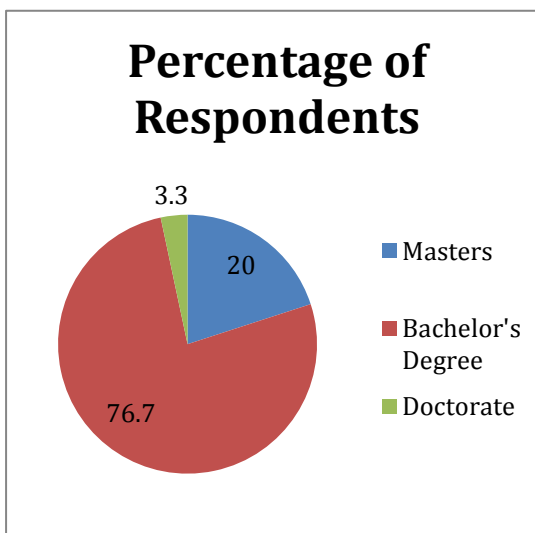
**AGE RANGE**



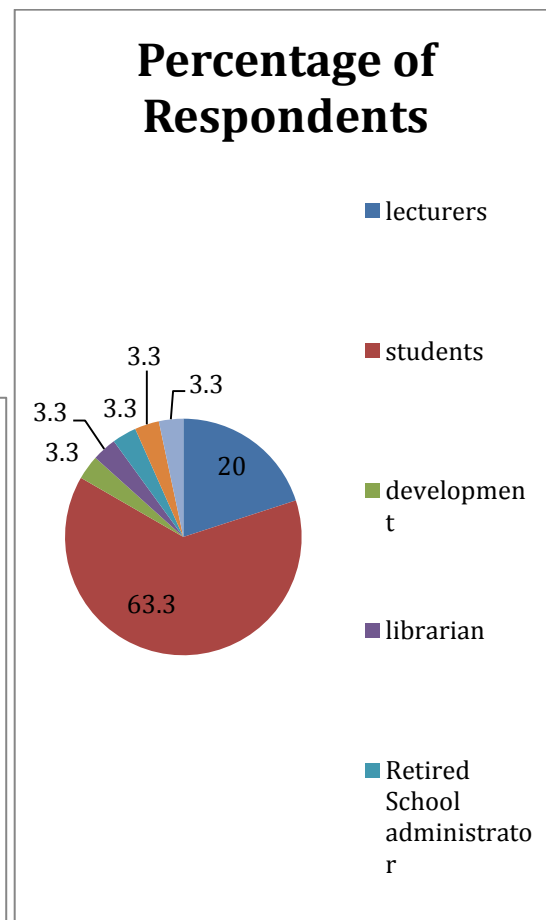
**GENDER**



**EDUCATIONAL LEVEL**



**OCCUPATION**

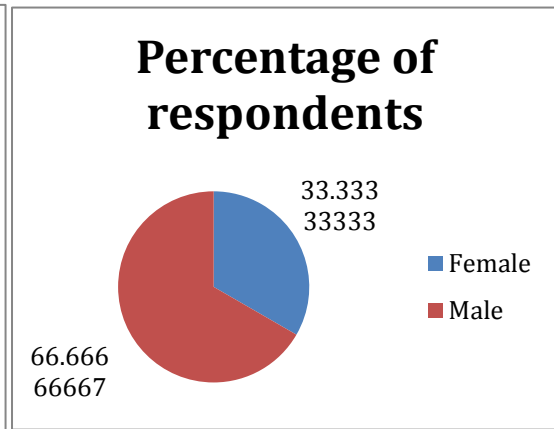
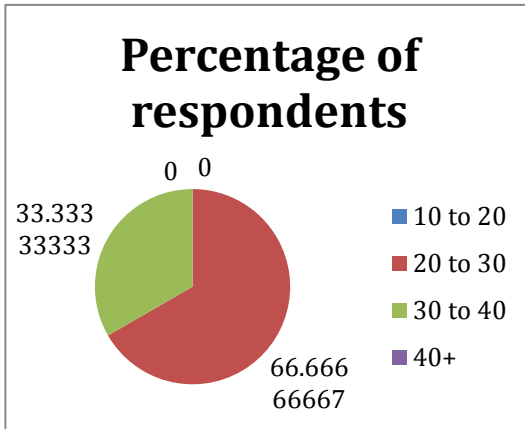




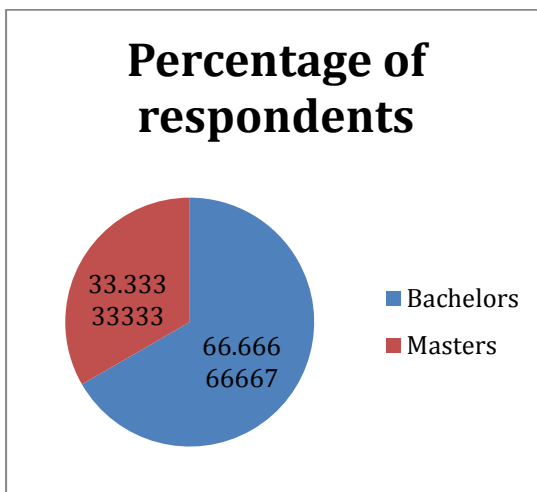
FOCUS GROUP

**AGE GROUP**

**GENDER**



**EDUCATION**



## 7.5 FAVORABLE INSTITUTIONS

Social	Economic	Political	Religious	Legal
hospitals	SMEs	Macroeconomic stabilization	Churches	Efficient fraud corruption and misappropriation regulations and institutions
schools	Free market economy	Good government practices		Law enforcement agencies
Trash collection agencies	Savings and investments	Good chieftaincy practices		strong, clear legislation
utilities	Improving the manufacturing industries	tax collection systems		
roads	Entrepreneurial workshops	Export oriented systems		
health services	Economic Strategy think-tanks	tax collection systems		
ICT sectors		long- term strategic planning		
free press		Minimum wage policy		
		Ministry of finance		
		Ministry of Economic Planning		

## 7.6 UNFAVORABLE INSTITUTIONS

Social	Economic	Political	Religious	Legal
Absence of basic infrastructure	Fraudulent practices	Dependence in foreign aid	Springing of non-taxable churches	Theft
Lack of recreational activities	High interest rates	Myopic economic planning		Corruption
Corruption and bribery	trade liberalization	Politicization of economic policies		Bribery
Immigration restrictions	Unenforceable tax laws	Demotivated civil servants		
restrictions on media	Retail economy	Bureaucracy		
Gender inequality	Deregulation of markets	Embezzlement of national funds		
Child labor	deregulation of export markets			
Pollution	Minimized private-public partnerships			
Acute class discrimination	Central Bank autonomy			
Unenforced mandatory education	High interest rates			
	Trade liberalization			
	tribal favoritism or prejudice in firing , hiring and lending			
	Neglect of local products			
	Small tax base			