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THE PURPOSES AND CONSEQUENCES OF IMPORT CONTROLS IN GHANA

by

Tony Killick

(Revised Draft-November 1972)

DEVELOPMENT RESEARCH GROUP
Center for International Affairs
Harvard University
Cambridge, Massachusetts

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THE PURPOSES AND CONSEQUENCES OF IMPORT CONTROLS IN GHANA

by Tony Killick*

Introduction

In spite of a mounting volume of evidence that the trade controls so commonly employed in low-income countries often have malign effects on their economies, and indications that Governments are beginning to loosen their notions on the sanctity of fixed exchange rates, import licensing and similar quantitative restrictions remain very common. Aside from the usual gap between the state of the arts in economics and the actual practices of governments, there are two particular reasons why advice from economists to get rid of controls is liable to be resisted. Firstly, economists tend to apply criteria which do not coincide with those of politicians, with the

*Research Fellow of the Harvard University Center for International Affairs, and formerly a member of the Harvard Development Advisory Service group working with the Government of Ghana. I am most grateful for the cooperation provided by the Bank of Ghana in preparing this paper, and for the helpful comments of J.J. Stern and J. Clark Leith. Professor Leith is currently preparing a substantial study on exchange control, liberalization and economic development in Ghana and was kind enough to make a draft of this available to me. Responsibility for the data and views expressed here is, of course, solely mine, and should not be taken as representing the views of any of the persons or institutions mentioned in this footnote.

former perhaps more concerned with static allocative efficiency than the latter. Secondly, it is always possible for politicians to attribute the past failings of controls to poor implementation by their civil servants or to the mistakes of some previous government.

This study of the operation of import controls in Ghana is therefore centered around two questions:

a) To what extent could import controls be said to have succeeded or failed in the nineteen-sixties, according to the criteria of the responsible governments? and

b) Were the weaknesses of the system peculiar to that period and therefore remediable, or were they so fundamental as to suggest that import controls can only be operated in Ghanaian conditions at a prohibitively high cost to the performance of the economy?

Recent events have made the Ghana case a particularly interesting one. The civilian government that was in power from October 1969 until it was overthrown by a military coup d'etat in January 1972 took the view that the defects of the import licensing system were so fundamental that it should be abolished and replaced by policies operating through the market mechanism. The military junta that took over disagreed and restored a fully comprehensive regime of controls. We are thus studying a country that has experimented with both controls and liberalisation, and has reverted to the latter. Is this renewed faith in the efficacy of controls justified by the evidence of the sixties?

Moreover, Ghana is one of the richer and more sophisticated of the states of tropical Africa. Britain tended to view it as a "model colony" and many observers have commented on the relatively high quality of its public service. Modernisation has probably proceeded further there than in most African states and statistical information is more readily available for a larger number of variables. In short, we are dealing here with a country which probably stands as good a chance as any in tropical Africa of "making controls work." Conversely, if they are found wanting in Ghana, their defects are likely to be even larger elsewhere on the continent. Ghana is thus a particularly interesting case to study.

The remainder of this paper proceeds, first, by providing a brief history of import controls. It turns, secondly, to set out the purposes which import controls were intended to serve. Thirdly, it assesses the degree to which the system produced the desired results, (a) in respect of the overall balance of payments and (b) as regards the efficient allocation of foreign exchange. A fourth section deals with the problems and weaknesses which were revealed during the period, and the paper concludes by seeking to answer the questions posed above.

A brief history of controls in Ghana

When in December 1961 it was announced that existing 'open general' (i.e. non-restrictive) import licenses would not be renewed for 1962 and that importers would henceforth require specific licenses, this was a decision that had been forced upon the Government at short notice by a rapidly deteriorating balance of payments.[1] There had been current account deficits in four out of the five previous years and these had caused increasing concern but as late as July 1961 the Minister of Finance had gone on record as saying, "I do not believe that the

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[1]See the present author's, "Ghana's Balance of Payments since 1950", Economic Bulletin of Ghana, Volume VI, No. 2 (1962), p.16.

imposition of quantitative import controls will serve our objectives; such controls are expensive in terms of manpower, and often [lead] to corrupt practices which we must avoid at all costs."[2] However, the country was heading towards a deficit of record size. Imports were rising sharply, partly because of speculation against the possible introduction of controls,[3] and in the course of 1961 the foreign exchange reserves were halved--from N¢298 million at end-1960 to N¢146 million at end-1961. Clearly, something had to be done; the imposition of import controls was the Government's response.

The haste with which a set of controls had to be improvised ruled out the operation of a scheme that had been carefully worked out beforehand and it must be presumed that in 1962 licenses were issued on a rather *ad hoc* and arbitrary basis. During the course of that year, however, a register of importers was developed, classified according to scale of business, and the Ministry of Trade began to work out specified procedures for processing license applications.[4] In his 1963 budget speech the Minister of Finance and Trade, Mr. F. K. D. Goka, announced

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2 *Parliamentary Debates*, Accra, Vol. 24, 7 July 1961, col. 121.

3 *Economic Survey, 1961*, Central Bureau of Statistics, Accra, 1962, para. 353.

4 See the forthcoming publication by J. Clark Leith referred to in the acknowledgements footnote.

that a foreign exchange budget would be drawn up (although it was not until 1965 that the first such budget made an appearance) and during that year the procedures were further improved. However, the appointment in late 1963 of a new Minister of Trade, Mr. A. Y. K. Djin, aborted these procedures for reasons that will be discussed later.

From 1963 until the *coup d'etat* of 1966, there were increasingly frequent criticisms of the manner in which the controls were being operated. Shortages began to be experienced and rumours of corruption at the Ministry of Trade resulted in the appointment at the end of 1962 of a commission of enquiry with Justice A. A. Akainyah as sole commissioner.[5] Public dissatisfaction continued however, and in 1965 another investigation was conducted under Professor W. E. Abrahams.[6] The publication in 1965 of the first foreign exchange budget represented, at least on paper, a major step in the direction of the rational planning of the country's external transactions. Prepared under Mr. K Amoako-Atta, who had become Minister of Finance, in consultation with the Ministry of Trade, the Bank of Ghana, an Import and Export Advisory Board, and representatives of 'strategic' industries,[7] it attempted to forecast the foreign exchange that would be available to finance imports in 1965 and to allocate these as between the public and private sectors, and different end-uses. A similar document was prepared for 1966[8], but that was quickly overtaken

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5 See A. A. Akainyah, Report of Commission of Enquiry into Alleged Irregularities and Malpractices in Connection with the issue of Import Licenses, Accra, February 1964, hereafter referred to as Akainyah Report.

6 See Report of Commission of Enquiry into Trade Malpractices in Ghana, Accra, 1965, hereafter called the Abrahams Report, 1965.

7 See The Budget, 1965, Ministry of Finance, Accra, 1965. This includes a section on the foreign exchange budget for 1965 and the page references refer to that section.

8 The Foreign Exchange Budget, 1966, Ministry of Finance, Accra, 1966.

by a change of government.

Following the 1966 coup,[9] licenses already issued for that year were revoked[10], a new programme was drawn up, and yet another commission of enquiry was instituted[11]. Under the NLC, procedures were adopted similar to those that had been worked out in 1963, the register of importers was revised and license allocations were published in an official publication, the Commercial and Industrial Bulletin. A special committee was formed to prepare annual import programmes, run from the Bank of Ghana and including representatives of the Ministries of Agriculture, Industries, and Trade, and the Ghana Industrial Holding Corporation.

A further refinement introduced in 1968 was the preparation of two alternative import programmes: a 'desirable' and an 'operational' programme. The latter was based on expected foreign exchange availabilities, including already committed foreign aid, whereas the former was an assessment of the imports the economy would need to achieve stated improvements in economic performance. The difference between these two programmes was then presented to meetings between Ghana and foreign aid donors in support of Ghana's case for more aid[12].

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[9] At this point it may help the reader to set out the chronology of changes of government that occurred in the period covered by this article:

(a) From independence in 1957 to February 1966 there was a civilian government headed by the late President Kwame Nkrumah.

(b) From February 1966 to September 1969, Ghana was ruled by a military-police government known as the National Liberation Council, or NLC.

(c) From October 1969 to January 1972 there was an elected civilian government headed by Prime Minister K.A. Busia, which I will call the Busia government.

(d) A second coup d'etat in January 1972 brought to power an army junta styled as the National Redemption Council, or NRC.

[10] Economic Survey, 1966, para. 73.

[11] See Report of the Commission of Enquiry into Irregularities and Malpractices in the Grant of Import Licenses, Accra, 1967, which I shall refer to as the Ollenu Report, 1967. See also the White Paper. No. 4/67, Accra 1967, which was issued by the government commenting on the Ollenu Report

[12] For published examples, see Ghana's Economy and Aid Requirements in 1968, Government of Ghana, Accra, 1968; and a similarly titled document covering

Simultaneously with its attempts to improve the import control system, the NLC began to reduce its coverage. Beginning in 1967, the range of goods on non-restrictive 'open general licenses' (OGL) was progessively expanded and a process of liberalisation was begun which was markedly accelerated by Mr. J. H. Mensah, first as the Commissioner of Finance of the NLC and then as the Minister of Finance of the Busia administration. The rapid growth of the share of total imports covered by OGLs is indicated by the following figures:

	Percentage of total imports on OGL
1967	3%
1968	17%
1969	37%
1970	57%

It was estimated that a further liberalisation announced in mid-1971 would raise the proportion[13] to 75% and, after allowing for other minor categories, leave only 20% still covered by specific licenses. These figures may be compared with an IMF estimate that in 1962-63 only 7% of imports were <u>not</u> covered by specific, restrictive licenses.

By 1970 liberalisation had gone so far that the import programming developed earlier had become rather redundant. With a large and growing proportion of imports outside the administrative control of the government, the preparation of more-or-less elaborate schemes for that part of imports still controlled became an increasingly

[13]This was calculated by J. J. Stern by assuming the same composition of imports as in 1970.

unreal exercise and, although foreign exchange budgets continued to be prepared, even for 1971, it is probably correct to say that 1969 was the last year in which a serious attempt was made to implement a detailed import programme. For this reason, the 1970 and 1971 programmes are not studied in any detail here. Even in 1969 liberalisation had gone far enough to cause considerable problems for those in charge. The return to comprehensive specific import licensing announced by the NRC in February 1972 was thus a reversion t[illegible] degree of control that had not been experienced during the previous four or five years.

The purposes of import controls

While it was a balance of payments crisis that caused controls to be introduced in the first place, the controls were also used to achieve other objectives. A memorandum submitted by the Bank of Ghana to the Akainyah Commission came as near to a comprehensive statement as it has been possible to find. The Bank distinguished between the primary and secondary purposes that the controls were expected to achieve.[14] The primary purposes were to "bring about a balance between total imports and total exports of goods as a means of halting the drain on the reserves" and to "regulate the flow of imports into the country with a view to excluding the importation of non-essentials." The memorandum went on to note two subsidiary objectives, namely to increase the volume of imports from socialist countries with which Ghana had signed bilateral trade and payments agreements, and to

14 Akainyah Report, 1964, pp. 4-5.

"discourage the importation of certain goods which were or could be produced locally ..."[15]

The Nkrumah government used the controls for yet another purpose, namely to effect a transfer of foreign exchange and import capacity from the private to the public sector. The published foreign exchange budgets for 1965 and 1966 were quite explicit about this. The latter, for example, allocated no less than 74% of total imports to the state sector, a policy which would have necessitated a transfer of foreign exchange from the private sector equivalent to 47% of their anticipated foreign exchange receipts.[16] Finally, it became clear in the mid-sixties that the Nkrumah government was using the controls to bring about a substantially different composition of imports than would otherwise have occurred, in order to facilitate a very high level of industrial investment.

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Krobo Edusei, Nkrumah's Minister of Industries, elaborated the protectionist policy to parliament with characteristic panache:

"Since December last year, Ghana has for the first time decided to exercise one of the weapons of economic sovereignty - import control! So long as this weapon is carefully and wisely wielded, our young and infant industries which are facing ruthless competition from long established and giant monopoly industries overseas, will be protected against dumping .... Where the government are of the opinion that the locally manufactured product can meet the entire home demand, and that its price and quality are up to satisfaction then a decision will be taken that in the interest of saving Ghana's precious foreign exchange earnings to finance the importation of INVESTMENT GOODS, no import licenses will be awarded to permit the importation of the commodity which is already being produced excellently in Ghana."
(Parliamentary Debates, 6 February 1962, cols. 198-9).

16

Foreign Exchange Budget, 1966, pp. 6-7

Thus the objectives that the planners were expected to achieve during the Nkrumah period could be summarized in the following manner:

(a) To protect the overall balance of payments by keeping the total value of imports within the estimated availability of foreign exchange available to pay for them.[17]

(b) Within this total, to provide an efficient allocation as between competing import commodities according to the stated priorities of the government. During the Nkrumah period these priorities included:

(i) an increased volume of imports originating in bilateral trade pact countries;

(ii) a restructuring of the composition of imports in favour of capital equipment and at the expense of "non-essential" consumer goods;

(iii) a transfer of foreign exchange from the private to public sector; and

(iv) the protection of local import-substituting industries.

The protection of the balance of payments remained a major objective of the governments which succeeded Nkrumah's but their allocational priorities differed considerably. The main plank of the NLC's strategy

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[17] In order to estimate the amount of foreign exchange available for imports it was, of course, necessary to specify policies or targets with respect to changes in external assets and liabilities, as will be shown shortly.

was to maintain economic growth while cutting back on investment by improving the level of industrial capacity utilization.[18] They thus looked to the import planners to give much higher priority to imported raw materials and spare parts, with less emphasis on capital goods. Bilateral trade and payments agreements were cancelled or allowed to lapse.[19] Expansion of the number of state enterprises in the directly productive sectors of the economy was brought to a halt and a greater stress placed upon making foreign exchange available to the private sector.[20]

Thus throughout the sixties the import planners were expected simultaneously to satisfy a number of objectives, and it is by these criteria that their performance should be assessed. We proceed now to judge the extent to which they were successful in their endeavours, beginning with the balance of payments.

<u>Assessment: (a) the balance of payments</u>

The need to preserve the country's foreign exchange reserves was a recurring theme throughout the sixties. The <u>Seven-year Plan</u>, for example, argued that,

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18 See documents referred to in footnote 12.

19 See ...

20 Two other less important objectives pursued after 1966 were (a) to use the licensing system to maximize the utilization of foreign aid and (b) to discriminate in favour of private Ghanaian importers. These points will not receive further attention here, although there is evidence in both cases that some successes were achieved.

> "As fluctuations in foreign exchange earnings are recurrent because of the reliance on a few export items, it is essential that the reserves should be maintained during the plan period at a level which contains a cushion to meet unforeseen and sudden deficits in the balance of payments. During the plan period, it should be a matter of policy not to draw the reserves significantly below the end of 1963 levels."[21]

Similarly, in 1965 the Minister of Finance spoke of the need to "save a further drain on our reserves" as "one of the most important tasks we have set ourselves for this year."[22] The NLC went further and predicated the operational import programmes for 1967, 1968 and 1969 on the basis both of an increase in gross reserves and a reduction in current payments arrears (see Table 1 below).

So, an examination of the trends in Ghana's external reserves provides a first approximate reading of the success of import controls in achieving the balance of payments objective. The value of reserves over the period is shown below.[23]

	Value of reserves at year-end (N¢ mn.)
1961	204.7
1962	206.4
1963	122.4
1964	95.2
1965	37.4
1966	53.4
1967	17.4
1968	22.2
1969	1[illegible].1
1970	26.4
1971	16.1

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[21] Seven-Year Development Plan, 1963/64 to 1969/70, Government of Ghana, Accra, 1964.

[22] The Budget, 1965, par. 37.

[23] These figures are calculated throughout at the exchange rate established in July 1967, viz. N¢1 = $0.98. N¢ is the abbreviation for Ghana's currency unit, the new cedi, used throughout this article.

Table 1 - BALANCE OF PAYMENTS FORECASTS

	1965			1966			196?	
	Forecast	Actual	Difference	Forecast	Actual	Difference	Forecast	Act[illegible]
1. Exports f.o.b.								
(a) Cocoa	144	148	+4	144	116	-28	158	12[illegible]
(b) Other	91	82	-9	88	84	-4	86	7[illegible]
2. Net invisibles and transfers	-41	-45	-4	-55	-39	+16	-63	-5[illegible]
3. Net private long-term capital receipts	15	26	+11	10	42	+32	23	2[illegible]
4. Net public long-term capital receipts	-5	2	+7	3	1	-2	25	1
5. Net suppliers credits and trade credits b/	91	71	-20	39	30	-9	-25	1[illegible]
6. Net IMF position	-	-8	-8	-	33	+33	9	1[illegible]
7. Changes in bilateral balances	+17	+25	+8	-	-4	-4	-4	-1[illegible]
8. Changes in external reserves c/	-	+38	+38	-16	-12	+4	-8	+2[illegible]
9. Errors and omissions	-	+5	+5	-1	+3	+4	-	+[illegible]
10. Total resources available for imports c.i.f. (net balance on above)	312	344	+32	213	254	+41	201	21[illegible]
11. Total of deviations from forecast as % of total forecast (ignoring signs throughout)			28%			38%		

Notes a/ This figure refers to aid already committed and makes no provision for the disbursement of newly co[illegible]
b/ Includes changes in trade and payments arrears. c/ Includes changes in assets and liabilities of co[illegible] sign indicates a reduction of reserves.
d/ Export and import figures include Valco. For these two years I have presented the forecasts that w[illegible] tion with the 'operational' import programmes rather than those that were presented to the aid dono[illegible]

Sources The Budget, 1965 (Accra, 1965); The Foreign Exchange Budget 1966 (Accra, 1966); Statistical Year Boo[illegible] Accra, 1969); Annual Report of Bank of Ghana for 1970-1971 (Bank of Ghana, 1971); unpublished data p[illegible]

...ND ACTUALS

(in millions of pre-1967 devaluation cedis)

...al	Difference	1968[d/] Forecast	1968[d/] Actual	1968[d/] Difference	1969[d/] Forecast	1969[d/] Actual	1969[d/] Difference	Mean of 1965 - 1969 Forecast	Mean of 1965 - 1969 Actual	Mean of 1965 - 1969 Difference
	-30	162	151	-11	176	174	-2	157	143	-14
	-11	85	86	+1	80	106	+26	86	87	+1
	+10	-60	-52	+8	-55	-68	-13	-55	-51	+4
	+2	16	16	0	15	8	-7	16	23	+7
	-24	35[i/]	29	-6	38[a/]	34	-4	19	13	-6
	+35	-38	-16	+22	-8	-2	+6	12	19	+7
	+4	-	8	+8	-9	-4	+5	0	+8	+8
	-12	-	-1	-1	-	+8	+8	+3	+2	-1
	+32	-5	-4	+1	-20	+2	+22	-10	+10	+20
	+3	-1	+4	+5	-	-12	-12	0	+1	+1
	+9	195	220	+27	216	246	+29	228	255	+27
	41%			16%			26%			30%

...mitted aid funds.
...mercial banks. A plus

...re prepared in conjunc-
...s.

..., 1965-1966 (Central Bureau of Statistics
...rovided by Bank of Ghana.

It is clear that the controls were unable to prevent a precipitate decline in the value of reserves during the Nkrumah period (1961-65) and were unable to achieve the replenishment that was desired by the NLC (from 1966).

This is not to say, however, that controls had no effect on the size of payments deficits. It may be judged from the chart that, other things being equal, the state of the balance of payments would have been even worse in the absence of controls. From 1958 until the imposition of controls at the beginning of 1962 imports were on a steeply rising trend but throughout the remainder of the sixties (with the exception of 1965) annual imports were kept below the 1961 level. While that year's figure was artificially large because of speculation against measures to restrain imports,[24] and thus does not provide an ideal basis for comparison, it should be borne in mind that the chart records imports in current prices and the reduction in real terms was considerably greater.[25] Moreover, large budget deficits generated a major expansion of domestic purchasing power in 1963-65, the main impact of which was felt on the price level rather than the quantity of imports.[26] But while the authorities did have some effect in limiting the size of the import bill, the fact remains that they were unable to fully achieve the balance

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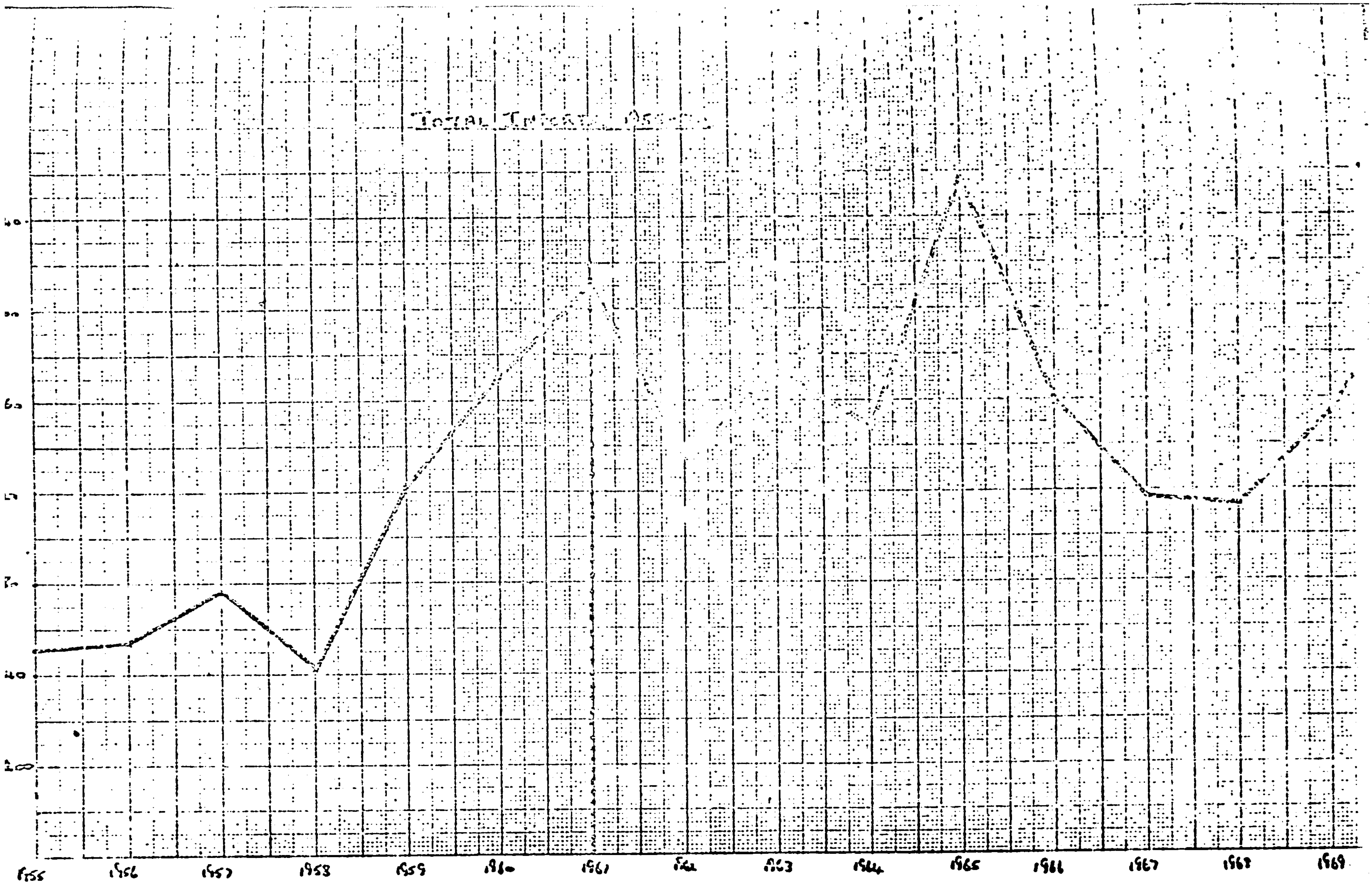
24 See footnote 3.

25 It has, for example, been estimated that in real terms imports declined by 30% between 1961 and 1968.

26 See Naseem Ahmad, Deficit Financing, Inflation and Capital Formation: The Ghanaian Experience, 1960-65, Weltforum Verlag, Munich, 1970. The national consumer price index rose by 30% between March 1963 and end-1965.


TOTAL
40
200
1956
1957
1958
1959
1961
1963
1965
1966
1967
1968
1969

of payments objectives of successive Governments and in seeking an explanation of this it is useful to examine separately two possible causes of failure: an inability to forecast the balance of payments with the necessary degree of accuracy, and an inability to limit imports to the intended levels.

Table 1 presents a comparison of the forecasts prepared annually by the planners of how much foreign exchange would be available to finance imports, with the final out-turn on the balance of payments as actually recorded. It is clear from these figures that there were in each year significant item-by-item differences between the forecasts and the actual out-turn. Line 11 of the table tries to provide a measure of the forecasting errors by expressing the sum of each year's 'Difference' column as a percentage of the sum of the 'Forecast' column (ignoring signs throughout) and it will be seen that the mean deviation ranged between 16% and 41%, with an average for the whole period of 30%. That the forecasts should be subject to substantial margins of error is not at all surprising, since Ghana's external transactions are notoriously volatile. I have argued elsewhere that large short-term fluctuations in the earnings of Ghana's cocoa and other export industries destabilise Ghana's balance of payments,[27] but it can be observed from Table 1 that differences between forecast and actual export earnings were by no means the only sources of error, and were not always the main ones. In value terms, errors

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27 In Birmingham, Omaboe and Neustadt (eds.), A Study of Contemporary Ghana: Vol. I, The Economy of Ghana, Allen and Unwin, London, 1966, p. 412.

in forecasting the invisibles and private capital receipt items were almost as large as errors in export forecasts, and, relative to their absolute forecast values, the errors for the former two items were much larger than for exports.[28]

The question raised earlier was whether the failure of the authorities to protect the country's external reserves to the desired extent could be attributed to the difficulties of forecasting the resources available for imports. Taking 1965-69 as a whole the answer is negative: the planners generally erred on the side of pessimism in their estimates of import capacity. This is clear from examination of the last column of Table 1, which displays the mean differences for each item over the period as a whole. From this it will be seen (lines 8 and 10) that actual imports exceeded the total forecast of import capacity by an average of N¢27 million p.a. and that the difference between the forecast and actual changes in external reserves was such that, had the reserves behaved as the planners intended, the country could have afforded an import bill which exceeded by an average of N¢7 million the level that was used in drawing up the import programmes. Conversely, had total imports achieved the targets that were set for each year the reserve position would have been better

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[28] Expressed as a percentage of forecast values, the deviations from forecast (ignoring signs) averaged as follows over the five years:

Cocoa exports	9.6%
Other exports	11.9%
Invisibles and transfers	18.6%
Private long-term capital	65.8%

than that planned, by an average of NC7 million p.a. It was the failure to hold imports to the planned levels that explained the authorities' inability to conserve the external reserves. It was the same factor which led to a larger than intended volume of medium- and short-term debt (see line 5 of the Table).

Referring back to the chart, it is apparent that after the introduction of licensing, a year of reduced imports alternated with a year of increased imports - a pattern which was maintained from 1961 to 1966. This behavioural pattern resulted from something similar to a stock-building cycle. In 1962, the first year of controls, it was initially easy to reduce imports because there was a substantial cushion of stocks to fall back upon. Monthly import data indicate, however, that as stocks were run down imports tended to revert to their pre-control levels, towards the end of 1962.[29/] Thus, under the pressure of demand imports went up again in 1963 to the second-highest level ever recorded and this presumably permitted some replenishment of stocks. When, early in 1964, the authorities became alarmed at the deteriorating payments position and revoked all import licenses[30/] they were able in that year to

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29/ See Economic Survey, 1962, para. 328, and Annual Report of the Bank of Ghana for 1963/64 (Accra, 1964), p. 20.

30/ Ibid. See also Leith, op. cit. Were this same pattern to be repeated in the future major payments difficulties could be predicted for Ghana in 1973. A substantial degree of import stock-building occurred in 1970-71 and this helped the new government to achieve major import reductions in 1972. In 1973, however, the authorities are certain to come under heavy pressure to allow in more imports and the temptation will be to licence a larger value of imports than can be paid for.

reduce the level of imports because once again there were some stocks to fall back upon.

From the oscillations of the preceding years an increase in imports could have been predicted in 1965, but not the enormous increase that actually occurred (see chart). It was recorded earlier that in his 1965 budget speech the Minister of Finance described the maintenance of the external reserves as "one of the most important tasks we have set ourselves for this year" and as late as September 1965 he assured the National Assembly that the foreign exchange plan "will be substantially fulfilled" and that "gross reserves will stand at virtually the same level" as they were at the end of 1964.[31/] The truth was, however, that imports were quite out of control and licenses were issued in that year to the value of N¢406 million, as compared with the planned level of N¢312 million.[32/] Fortunately, not all the licenses were utilised but, even so, imports rose to a new record level--a record that still stands today.

Substantially greater success in scaling down the import level was achieved after the 1966 coup but the tendency for actual imports to exceed the planned level persisted, as can be seen from line 10 of Table 1. Moreover, there is some evidence that the generally disinflationary fiscal and monetary policies pursued by the NLC had as much to do with the generally modest level of imports in their years as did import controls. In 1968, for example, there was another very large

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31/ K. Amoako-Atta, 1965 Supplementary Budget Statement, Government of Ghana, Accra, 10 September 1965, p. 6.

32/ c.f. Foreign Exchange Budget 1966, p. 4.

over-issue of licenses: licenses issued totalled N¢440 million as against an operational programme of only N¢279 million. That a high proportion of the licenses were not utilised may be at least partly explained by the depressed state of domestic demand. The tendency to issue licenses in excess of import capacity continued right through to 1971 and, in spite of the liberalisation of 1969-71, for much of this period imports that had not been liberalised increased even more rapidly than those that had been freed of "controls:"[33/]

Increase between 1st Quarters	OGL Imports	Other Imports
1969-70	9.5%	22.7%
1970-71	33.9%	44.5%
1969-71	46.7%	77.3%

In short, while there is little doubt that the existence of a system of controls resulted in a reduced volume of imports, it is also evident that the controls were unable to reduce imports to levels consistent with successive governments' desires to conserve and strengthen the country's external reserves. The excess of actual imports over the planned levels appears to have been chronic to the system, which was apparently unable to resist the excess demand for imports that existed throughout the greater part of the decade.

The consequence was that in all the years studied here there was either a reduction in reserves (1963-65, 1967, 1969) or an increase in reserves that was smaller than intended (1966, 1968). Arrears on current payments and profit remittances increased in the same period

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33/ These figures were calculated from monthly trade statistics by J.J. Stern.

and this was a second residual element in the payments position which had to absorb the cost of excess imports (e.g. in 1965, 1966 and 1968).

The control system may have imposed a cost to the balance of payments additional to the factors already considered. The introduction and maintenance of controls involved, at least until 1967, a more-or-less explicit rejection of policy weapons that operated through the price mechanism. As the national currency became increasingly over-valued the incentives to export and for foreign firms to invest in Ghana became weaker. Since the real villain of Ghana's balance of payments problem was the stagnation of her export sector, it could be that the heaviest price that had to be paid for import controls was that they distracted attention from the need to boost exports and were associated with a set of policy instruments which actually discouraged them. A scheme of export subsidies was not seriously tried until 1970-71.

Assessment: (b) allocative efficiency

Alongside the protection of the balance of payments, the task of the planners was to provide an efficient allocation as between competing import commodities, according to the priorities of the government. As was described in an earlier section, the priorities of Nkrumah government included increased trade with socialist and other bilateral trade pact countries, a restructuring of imports away from "non-essential" consumer goods in favour of capital equipment, a transfer of foreign exchange from the private to public sectors, and the protection of local industries. To what extent did it prove possible to achieve these objectives?

A good deal of progress was made in shifting the geographical origin of Ghana's imports in favour of the socialist countries during the first half of the 'sixties. This is shown in Table 2, where it can be seen that the share of imports from the centrally planned countries rose from an average of 4% of the total in 1959-61 to 20% in 1964-66. It has been calculated that between 1960 and 1964 imports from bilateral partners increased by 170% while imports from other sources fell by 9%. There probably would have been some tendency for the share to grow even under a liberal regime--note the increase between 1952-54 and 1959-61--but there is no doubt that it was greatly accelerated by the discriminating use of the licensing system. Even in 1962 it appears that attempts were made to direct importers to specified countries of supply[34/] and although this was abandoned in 1963, differentiation in favour of bilateral pact countries was quickly reintroduced and in 1964 35 commodities were identified which were only permitted to be imported from the pact countries unless it could be shown that they were unable to supply.[35/] When the licensing authorities ceased to discriminate in favour of these countries after the 1966 *coup*, the share of imports emanating from them went down markedly, as can also be observed from Table 2 although this change was reinforced by the cessation of new credits from these countries and the emergence of Western countries as major aid donors.

34/ This would appear to be the implication of the statement in the 1962/63 budget speech that the import licensing system would be reviewed "to ensure that importers are allowed some flexibility in choosing sources of supply," *Parliamentary Debates*, 3 October 1962, col. 160.

35/ See Leith, *op. cit.*

Table 2

THE GEOGRAPHICAL ORIGIN OF IMPORTS, 1952-69

(percentages of total imports)

	1952-54	1959-61	1964-66	1967-69
United Kingdom	53	38	27	28
Rest of Sterling Area	6	5	4	6
E.E.C. Countries	24a/	23	22	21
Dollar Area	5	9	13	20
Communist countries	0b/	4	20	8
Other	12	21	14	17

Notes: a/ This figure refers to O.E.E.C. countries.

b/ Less than 0.5% of total imports.

Sources: C.B.S. annual *Economic Surveys*.

It is true that the reorientation of Ghana's import trade could not be achieved overnight and that the limited initial success led to a positive balance on bilateral payments, which was, in effect, an interest-free credit from Ghana to the pact countries. The credit balance amounted to N¢3.4 million at the end of 1962 but by 1963 there was a small negative balance which by the end of 1965 had grown to N¢25.2 million. There were various complaints that licenses were not issued early enough for compliance with the rather rigid procedures of the central planning authorities[36/] but, even so, a rapid shift did occur and in this respect the authorities were successful in allocating foreign exchange in accordance with the wishes of the Nkrumah Government. Whether the policy of diverting trade to bilateral pact countries was in the national interest is a separate issue, although a good case could be made out on strictly economic grounds for such a policy and such evidence as is available indicates that the terms of Ghana's trade with the pact countries were not less (or more) favourable than for her trade with the rest of the world.[37/] However, what is relevant here is that the licensing authorities achieved what was asked of them, both during and after the Nkrumah period. The only significant respect in which the authorities could be described as having been unsuccessful was their failure to expand bilateral trade with neighbouring African countries very much.

[36/] Economic Survey, 1964, para. 112, and the Abrahams Report, 1965, p. 18.

[37/] This is argued in an unpublished paper by Chris Stevens, "In Search of the Economic Kingdom: The Development of Relations Between Ghana and the USSR," April 1972.

There is equally persuasive evidence that the import planners were successful in changing the end-use composition of imports in the general directions which successive governments desired. As can be seen from Table 3, there was during the Nkrumah period a remarkable shift in the composition of imports away from consumer goods and in favour of capital equipment. It is likely that some change in these directions would have ocurred anyway, as import-substituting industrialisation got under way, but it is beyond doubt that the licensing system greatly accelerated the process, or, to put the matter another way, that the controls facilitated the very rapid industrialization that characterised the first half of the sixties in Ghana. The table also shows that after the demise of Nkrumah the authorities were successful in implementaing the new priorities, of a shift away from new investment and an improved availability of industrial raw materials.

The planners did not get all their own way, however. Striking though their achievements were, they often found itdifficult to impose their desires on the actual pattern of imports, both before and after the Nkrumah period. The Annual Plan for 1965, for example, complained that shortages of capital equipment, raw materials and spare parts had resulted from an undesirably high level of consumer good imports in 1964,[38] and in his "mini-budget" of September 1965 the then Minister of Finance produced data showing that actual import licenses issued were weighted much more heavily towards consumer goods than had been intended in the foreign exchange budget for that year.[39] More comprehensive information is available for 1968 and 1969, and Table 4

[38] Annual Plan for 1965, Office of the Planning Commission, Accra, 1965, p. 30.

[39] 1965 Supplementary Budget Statement, pp. 5-6.

Table 3

THE END-USE COMPOSITION OF IMPORTS, 1952-1969

(percentages of total imports)

	1952-54	1959-61	1964-66	1967-69
1. Non-durable consumers' goods	49	42	28	25
2. Durable consumers' goods	7	8	5	5
3. Fuels and lubricants	7	5	5	6
4. Non-durable producers' materials	12	14	18	29
5. Durable producers' materials a/	12	20	16	10
6. Producers' equipment	13	12	28	24

Note: a/ Chiefly construction materials.

Source: C.B.S. annual Economic Surveys.

presents a comparison of the end-use composition of the operational import programmes for those years with actually recorded imports.

It can be seen from these statistics that in both years consumer goods (durable and non-durable) took up a larger share of the total than had been intended, whereas raw material imports were well below expectations. The proportion of capital goods was also larger than had been programmed. Table 5 on p.47 below also shows that at the single commodity level there were also large discrepancies between what the planners intended and what actually happened. The reasons for these discrepancies are discussed later but, to be fair, it should be added that to some extent in 1968 and more so in 1969 import liberalisation had gone far enough for it to be especially difficult for the planners to perform their job with precision.

At the rather broad level of aggregation presented in Tables 3 and 4 the planners had considerable success in changing the composition of imports in the desired directions, but were they able to do so efficiently? Were they as successful at the micro-economic level as they were overall? Although the evidence is not at all systematic, it seems that here there is altogether a different story to tell.

Firstly, although it is true that under licensing the share of capital equipment increased dramatically in the Nkrumah years, it is also the case that specific licensing failures either delayed the completion of investment projects or caused them to cease operations for periods because of material shortages. Thus, the Abrahams Report, 1965 revealed that completion of a sugar factory was unnecessarily delayed because, the Ministry of Trade "would not issue licenses to import paint

Table 4

PROGRAMMED AND ACTUAL END-USE COMPOSITION OF IMPORTS, 1968-69a/

(percentages of total)

	1968		1969	
	Programme	Actual	Programme	Actual
1. Non-durable consumers' goods	21.0	24.2	19.6	24.7
(of which, food)	(10.4)	(10.9)	(11.9)	(10.3)
2. Durable consumers' goods	4.5	4.7	2.5	5.4
3. Fuels & lubricants	7.4	6.8	6.6	6.4
4. Non-durable producers' materials	34.4	30.8	39.8	29.6
5. Durable producers' materials	8.3	8.7	5.1	10.4
6. Producers' equipment	24.3	24.9	26.5	23.3
7. TOTAL	100.0	100.0	100.0	100.0

Note: a/ Includes Valco imports.

Sources: Bank of Ghana; C.B.S. annual Economic Surveys.

to protect steel structures,"[40/] and there were several instances when firms had to close down temporarily for want of crucial spare parts. The 1965 Annual Plan expressed serious dissatisfaction with this state of affairs:

> A particularly unfavourable aspect of this situation has been the waste of capital and the loss of potential output when major pieces of capital equipment have been unable to operate owing to the absence of small but vital spare parts. All sectors of the economy seem to exhibit this feature. The use of construction equipment in both the public and private sectors has been considerably below optimum. Many industries have had periods of slowdown or even complete stoppage in production.[41/]

Even more serious, however, were the consequences of shortages of industrial raw materials which developed in 1963-66. Ghana was starving her existing industries in order to be able to build new ones and there was much criticism of this. The 1964 Economic Survey complained that industrial output had been held back by inadequate supplies of raw materials and went on,

> This is one of the major problems hindering the rapid industrial advancement of the country. It has not been possible yet for those responsible for the issue of licenses to evolve a machinery that will enable the industrial sector of the economy to be provided with its allocation of foreign currency at the appropriate times. As a result of this, establishments have had to run at less than optimum capacity...[42/]

The following year's Survey echoed the same theme[43/] but most interesting of all was a devastating attack, early in 1966, on the lack of clarity and poor implementation of the Ministry of Trade's licensing policies in a weekly journal, The Spark, which was the ideological organ

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[40/] Abrahams Report, 1965, p. 21.

[41/] Annual Plan for 1965, p. 30.

[42/] Economic Survey, 1964, para. 285.

[43/] Economic Survey, 1965, para. 282.

of Nkrumah's own Convention People's Party.44/ The Abrahams Report, 1965 gave a particularly poignant example of the adverse effects of materials shortages:

> In the case of the State Paints Corporation, it applied for import licenses for raw materials in September of last year. And the licenses were issued in May of this year. It had to abandon operations altogether between May and July. At the same time, licenses were issued for the importation of paint at an expenditure of foreign currency running at an average pro rata rate four times that of raw materials. The Corporation has furthermore been prevented by an inadequacy of raw materials from following up export enquiries from other African countries. On account of its stoppage, private retailers have been selling the Corporation's paint at ₤G4 per gallon when it could have been sold without loss at ₤G1.5s.45/

The result of all this was an exceedingly low level of industrial capacity utilisation. Estimates of the degree of utilisation in this period vary considerably. An estimate for 1964 had it that manufacturing plants were then operating at about 60% of single-shift capacity46/ but probably the most reliable estimate is Steel's, who found for 1967/68 that only 35% of "maximum theoretical" capacity was being utilised.47/ By 1967/68, moreover, capacity utilisation was undoubtedly greater than three or four years earlier. This was one of the major policy objectives of the NLC

44/ Article by Julius Sagoe in The Spark, Accra, early 1966.

45/ Abrahams Report, 1965, p. 14.

46/ M. I. Brenya, "Survey of Manufacturing Enterprises," mimeo, 1964, passim.

47/ William F. Steel, Import Substitution Policy in Ghana in the 1960's, Ph.D. dissertation, Massachusetts Institute of Techology, September 1970, p. 45.

and it can be estimated that between 1963 and 1968 the volume of imports of raw and semi-processed materials increased by roughly 50%.[48/] Since there was no comparable expansion in productive capacity, it is almost certain that, had Steel made estimates for, say 1964 or 1965, he would have got an even lower figure than 35%.

It is not argued, of course, that shortages of material and spares were the sole cause of excess capacity, for it became clear in the later sixties that a number of plants were too big for the domestic market (and were unable to export the potential surplus). But there was no question in business or official circles in the mid-sixties that the deficiencies of the licensing system were a major contributory factor. It is, however, possible that the chain of causality was different from that given above. Leith suggests that the licensing system encouraged the deliberate creation of larger-than-necessary plants in order to obtain more ample import licenses for materials. This could well have happened in specific cases but there is little concrete evidence on this and, intuitively, the deliberate creation of excess capacity would seem a rather high-cost of possibly obtaining an improve licence allocation.

However the causality ran the consequence of low capacity utilisation was higher costs of production. In his definitive study of this topic, Steel found that low capacity utilisation went far to explain the limited ability of the manufacturing sector to achieve net savings of foreign exchange:[49/]

[48/] This was estimated from import data in the annual Economic Survey deflating by the U.N. price index of world export of manufactured goods.

[49/] Steel, pp. 151-152 and 155.

> "Much of the inefficiency in Ghana's industrial sector results from committing scarce foreign exchange and capital funds to an investment and then failing to use it productively ..."
>
> "If constrained to operate permanently at 1967/68 production levels, almost three-quarters of the firms surveyed would be unable to earn a normal return on capital and still compete with imports, even if the official price of foreign exchange were raised by 50%. Furthermore, almost one-quarter would actually cause a net annual reduction in foreign exchange availability, taking into account all indirect foreign exchange costs and amortisation of the original investment."

Problems of this kind were not confined to the manufacturing sector. Even agriculture, which uses little by way of imported inputs, suffered from shortages of fertilisers and matchets.[50/]

It should be added, finally, that there were a number of instances in which the timing of licensed imports weakened the position of local producers. One example was the importation of a large quantity of bottles from Czechoslovakia and China in 1965 just before a new glass factory was commissioned in Ghana, so that the factory was for some time unable to sell its own bottles.[51/] Other examples include the importation of a large quantity of maize in the middle of the 1967 maize season, and of fish in mid-1970, causing local catches to be left to rot on the shoreside. It appears, then, that the success of the planners in biassing imports in favor of industrial investment goods was achieved at a high cost in terms of allocative efficiency.

50/ Abrahams Report, 1965, paras 67-68.

51/ Norman T. Uphoff, Ghana's Experience in Using External Aid for Development, 1957-1966, University of California, May 1970 (mimeo), p. 572.

Their other main achievement in this area, as was seen from Table 3, was a major reduction in the share of consumer goods. To what extent were they able to achieve this efficiently, in the sense that they were successful in discriminating between 'essential' and 'luxurious' consumer goods? The answer is that throughout the period of licensing there were recurring shortages of what are conventionally regarded in Ghana as 'essential' consumer goods. In the second half of 1963, for example, shortages developed of sugar, salt and other items and the position became worse in 1964. As that year's Economic Survey put it,[52/]

> "It has not ... been possible yet to draw up a priority list of import items with the complete elimination, for the time being, of luxurious commodities. The result is that at times when very essential commodities are in short supply, the counters of certain shops have on them unessential items like canned potatoes, etc., from trade and payments agreements countries."

Drugs were among the items that became scarce in 1964.[53/] Even 1965, when license issues for consumer goods exceeded the import plan by 43%,[54/] did not see an end to the scarcities. In the view of the Economic Survey, "the country had to cope with the most acute shortages of basic commodities since import licensing was introduced

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52/ Economic Survey, 1964, para 112. The author, who was then a lecturer at the University of Ghana, recalls that at this time, when many basic items were simply not to be had, there was a plentiful supply of Russian caviar and--in a country which grows excellent pineapples--Chinese tinned pineapples.

53/ Parliamentary Debates, 13 March, 1964, col. 210. It is perhaps ominous that in August 1972 the NRC's Commissioner of Health found it necessary to deny the existence of any shortages of drugs (Daily Graphic, Accra, 19 August, 1972). Is history repeating itself?

54/ 1965 Supplementary Budget Statement, p. 5.

in 1965,[55/] and there is good reason to believe that these shortages were a major reason for the popularity of the coup that brought down the Nkrumah Government.[56/]

Improvements in the licensing system after the coup resulted in a more rational flow of consumer good imports thereafter but it did not entirely put an end to the anomalies. In April 1968 the Bank of Ghana noted that,

> "fairly large quantities of consumer goods of a luxury or semi-luxury nature can now be found in the big stores. It is not clear whether these are being brought in because the importers are taking advantage of the 'omnibus' character of certain licenses or whether there are other loopholes. At any rate, the appearance of these commodities in the market coupled with the reported shortages of raw materials is a matter that has already elicited adverse comment."

By 1969 Dr. Busia's Progress Party had come to the conclusion that direct trade controls, "have harmed the welfare of the consumer and prevented an orderly growth of the economy."[57/]

To sum up, even the rather scrappy evidence that is available leaves little doubt that, although the authorities were successful in achieving desired changes in the overall composition of imports, they were unable to reconcile this with a detailed allocation of import licenses according to a coherent and well ordered set

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55/ Economic Survey, 1965, para 122.

56/ Uphoff conducted a public opinion poll after the coup and found that "shortages of food, clothing, etc., and inflation of prices" were the most frequent reasons given why Ghanaians were happy about President Nkrumah's overthrow (pp. 715-716).

57/ The Progress Party Manifesto, Accra, August 1969, p. 5.

of priorities. The result at the micro-economic level was an inefficient use of scarce foreign exchange that served to intensify the damage done to the economy by the overall shortage of foreign exchange.

The reasons for these and other deficiencies will be explored in the next section but the point should be made here that not all the shortcomings described above should be laid at the doors of the import programmers. Specifically, it appears to have been the case in the period 1963-1965 that the priorities of President Nkrumah were such that he was willing to keep factories short of materials and spares if that was a necessary price for sustaining his industrial investment plans. That this was a questionable policy is clear but is not relevant to this discussion. Those responsible for the import programmes should be assessed according to their success in implementing the political priorities that were handed down to them. Thus, in some measure the allocative distortions that marked this period were the result of apparently irrational political priorities rather than a failure of the licensing system as such.

There remain to discuss two other objectives that the planners were expected to accomplish and these can be dealt with more briefly. The first of these was the transfer of foreign exchange from the private to the public sector, which might be called the '<u>socialisation of imports</u>'.

As was noted earlier, the foreign exchange budgets for 1965 and 1966 envisaged a massive transfer of foreign exchange earnings from the private to the state sector, so that in the latter year no less than 74% of total planned imports were allocated to the state sector.[58/] Unfortunately, it is impossible to measure the extent to which this target was achieved but there is no doubt that a substantial socialisation of imports did occur in the last years of the Nkrumah period. The industrial investment which the import programmes were tailored to accommodate was very largely generated by the public sector[59/] and this was a period when consumption was also being socialised.[60/] Trade statistics indicate that direct Government imports rose as a percentage of total imports from 7.0% in 1961-62 to 11.6% in 1964-65,[61/] but this tells only part of the story because it does not include the imports of state enterprises and similar para-statal agencies. That the licensing discriminated in favor of them also is attested to by the 1965 Economic Survey (para 282), which notes that:

> "... most manufacturers were unable to satisfy their requirements of raw materials and spare parts. The sectors most severely hit were the private sector, followed by the co-operative sector. The advance in the State and Joint State/Private Sectors, on the other hand, was remarkable."

58/ Nothing is more indicative of the contrasting priorities of the Nkrumah Government and the NLC than the fact that the 1967 import programme reduced the state's share to 36%.

59/ A large aluminium smelter being built by a consortium of American companies was the chief exception.

60/ See Killick and Szereszewski in Robson and Lury (eds.), The Economics of Africa, Allen and Unwin, London, 1969, Table 5, p. 88.

61/ Calculated from the Annual Trade Reports, Central Bureau of Statistics, Accra.

However, even state enterprises had their supply problems. The difficulties of the State Paints Corporation have already been mentioned and a report by the State Enterprises Secretariat referred to difficulties in 1964 because import licenses were delayed or issued for inadequate amounts. It went on, "The first half of 1965 was characterized by frequent and prolonged stoppages of work in almost all the enterprises due to acute shortage of raw materials and spare parts." However, licenses were issued later that year.[62] Once again, then, it seems likely that overall the licensing authorities were able to meet the political requirement of the Nkrumah government that the public sector be given priority in the allocation of foreign exchange but that the record was less satisfactory when it came to the detailed operation of this priority.

The remaining principle according to which the import planners were required to allocate licenses was that of protecting local industries. This aspect was the one most emphasised to Parliament when licensing was first introduced (see footnote 15) and it was acted upon to some extent. Nkrumah's desires to give priority to capital goods imports and to transfer foreign exchange to the public sector were themselves part and parcel of the industrialisation drive, but the licensing system was also operated as

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[62] "Report by State Enterprises Secretariat on Programs by State Manufacturing Enterprises," Accra, December 1965 (mimeo). The Abrahams Report, 1965 (p. 18) documents that for 1965 the Secretariat obtained licenses for only N¢7.6 million as against a request for N¢33.6 million.

an explicit device of domestic protection. In October 1963, for example, items of footwear, matches, toilet paper, nails and plastic utensils were prohibited,[63/] and the Economic Survey for that year noted that the rapid growth in the number of manufacturing plants was "helped partly by the introduction of import licensing..."[64/] In the following year the authors of the Survey were less confident on this score. They argued then that the erratic functioning of the licensing system had made it difficult for businessmen to plan ahead and that the resulting uncertainty "was reflected partly in the reluctance of business enterprises to increase investment..."[65/] Without raw materials firms could not take advantage of the protection from foreign competition.

During the sixties Ghana employed various devices for protecting local industries besides import controls--tariffs, subsidies and tax incentives--and to survey these as a whole would be well outside the scope of this paper. Leith, who studied the protective system in detail, concluded that so far as import licensing was concerned, "no comprehensive import substitution policy was

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63/ See Leith, op. cit. The list of items banned for apparently protectionist reasons grew over the years and at the end of 1971 included flour and bakery products, beer, certain petroleum products, bottles, radios, furniture and rubber stamps (see Commercial and Industrial Bulletin, Accra, Nos. 51A and 70). Ball-point pens and paper clips were added in 1972 (see West Africa, London, 4 August 1972, p. 1022).

64/ Economic Survey, 1963, para. 280.

65/ Economic Survey, 1964, para. 67.

developed." What is abundantly clear from evidence presented earlier is that the manner in which the licensing system was operated provided a distorted and arbitrary set of investment incentives that was unlikely to result in an efficient pattern of import-substitution.[66]

Problems and weaknesses

The conclusion that emerges is that, while import controls were by no means completely ineffective, they were also less than completely efficient. What, then, were the sources of weakness?

One was that a single policy instrument was being used to achieve a multiplicity of objectives. Had the programmers been able to concentrate, say, on controlling the total value of imports they might have done well, but to do this while at the same time shifting importers to bilateral pact sources of supply and changing the composition of imports in favour of industrial investment and giving preference to public sector importers and protecting local industry and to do all these things in a smoothly functioning manner, would have taxed the best informed, most efficient planning agency in the world. Tinbergen has, of course, demonstrated formally that each government target should have a separate policy instrument, and that more instruments are needed when governments are pursuing policies that are intended to be discriminating in their effects.[67] An intuitively more appealing way of making the point is that while a single policy instrument can help to achieve more than one objective,

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66/ See Steel, p. 50, and passim.

67/ See J. Tinbergen, Theory of Economic Policy, North-Holland, 1955, especially p. 70.

it is unlikely to be able to satisfy more than one with any degree of precision. Too many different things were being asked of the planners and to some extent, then, failure was written into their terms of reference.

Another source of difficulty which is implicit in what has already been written was that the planners did not receive sufficient support from their political masters. It is to be presumed that every major departure from previously agreed import programmes required Ministerial sanction and there were a number of such departures. The most spectacular of these occurred in 1965. On this occasion the Minister of Finance apparently did not receive the support of his President, because the former's carefully devised import programme was simply swept aside by a President insistent on completing an enormously expensive new conference building and on filling the shops for a meeting of the Organization of African Unity.[68/] It was, however, a more general problem. If the licensing system were not to come under internal pressure and if there were not to be domestic inflation it was necessary that restraint be exercised on domestic demand. In practice, however, the Nkrumah government pursued strongly expansionary policies, and ran an especially large budget deficit in 1965.[69/] There was as a result much

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[68/] See Economic Survey, 1965, paras. 126-127.

[69/] Ahmad, pp. 42-46.

domestic inflation,[70] which lowered the relative price of imports and yet further intensified the pressure to license an unsustainably large volume of imports.

Moreover, this problem did not disappear with Nkrumah. The NLC also proved unable or unwilling to restrain consumption, private and public, to the levels upon which their own import programmes were based. For example, the operational import programme for 1969 was based upon assumed increases in private and government consumption of N¢30 million and N¢15 million but the actual increases were N¢75 million and N¢21 million.[71] In consequence, consumer good imports in that year were well above the planned level. Thus, throughout most of the sixties the high level of domestic demand led to intense pressures on the licensing system. It is also worth noticing that import programmes were normally prepared on a calendar-year basis but that, with the exception of 1965, fiscal years covered different twelve-month periods--a fact which could scarcely have assisted the co-ordination of fiscal and balance of payments policies. In all years the import programme was exceeded and a reasonable conclusion to draw is that when they came under strong pressure to grant more licenses the responsible Ministers gave way --both in the Nkrumah period and thereafter. Thus, the sub-committee

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70/ See footnote 26.

71/ See R. Bhatia, "Import Programming in Ghana, 1966-1969," (mimeo, 1970). The figures were calculated in 1968 prices.

responsible for the import programme noted in a memo to the government of March 1970 that for 'essential' food items, "the licensing authorities are always under pressure to issue licenses whenever it is felt that stocks were low. Imports of these items could therefore be deemed to be as close to actual demand as possible allowing for changes in stocks."

Poor co-ordination of policies bearing upon the level of aggregate demand and of import programmes combined with an inadequate level of political commitment to the import programmes were thus a major source of weakness. Not only were governments asking too much of the import programmers; they were also failing to give them the support they needed.

In the popular mind, however, there was one overwhelming cause of the deficiencies of the licensing system: corruption. There were certainly good reasons for regarding this as a serious problem. A succession of investigations found evidence of corruption in the allocation of import licenses. First, the Akainyah Report, 1964 found substantiated allegations of bribery and the forging of licenses against five fairly junior officers of the Ministry of Trade and against the chief of the Criminal Investigations Department of the police. The Abrahams Report, 1965 also hinted heavily at malpractices in the same Ministry.[72/]

[72/] Abrahams Report, 1965, paras. 106-108, and passim.

On the whole, though, what those enquiries brought to light seemed relatively small beer. The same cannot be said of the findings of the Ollenu Report, 1967. This found that Nkrumah's last two Ministers of Trade had set aside the carefully devised procedures for the allocation of licenses in order to obtain bribes.

> Under A.Y.K. Djin, it said, "licenses were issued solely at his discretion, capriciously exercised with the consequent development of a crisis in the import trade ... [He] embarked upon irregularities in the issue of licenses and fraudulently exploited the situation created by himself for his own benefit, to the advantage of members of his family and personal friends ..."73/

> Under Kwasi Armah there was "open corruption and malpractices ... licenses were issued on the basis of a commission corruptly demanded and payable by importers on the face value of the import licenses issued. The commission was fixed at 10%, but was in special cases reduced to 7½% or 5%." The corruption was "not spasmodic but organized and systematically operated through agents ... [so that] decent importers were compelled to accept the improper methods of obtaining licenses as the only means of survival."74/

These enquiries also discovered various other forms of illegality. Justice Akainyah found that various businesses had been illegally selling their licenses or had mis-declared the goods imported and the Abrahams Report, 1965 (para. 120) talked of "importers of straw who would be unable to finance the imports, and who, we think, made over to others more substantial than themselves the

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73/ White Paper on Ollenu Report, p. 3.

74/ Ibid., pp. 4 and 6. It is amusing to find in this period that Armah was of the opinion that it was "generally accepted" that the amount of corruption in Ghana had reduced to "some way below the average for developing countries." (Daily Graphic, Accra, 21 May 1964).

use of licenses which they had obtained."[75] Again, it appears that this problem has outlived Nkrumah. After it took over power in 197? the NRC set up yet another commission of enquiry under Justice P. D. Anin charged, inter alia, with investigating the allocation of import licenses under the Busia government, and this has already heard some apparently damaging evidence from senior civil servants and others to the effect that Ministers varied the normal procedures for allocating licenses in order to finance specific individuals and companies, and that this was used as a means of financing the ruling political party.[76]

It is nevertheless difficult to believe that bribery and other illegalities offer more than a partial explanation of the defects of the licensing system.[77] Serious allegations of large-scale corruption are

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[75] The Ollenu Report, 1967 (p. 24) found that Justice Akainyah's own wife had acted as an agent of Kwasi Armah to collect bribes, and the Justice subsequently resigned from the judiciary.

[76] See, for example, the Daily Graphic issues of 2nd and 5th May, and 13th June 1972, and Ghanaian Times (Accra) of 3rd May 1972.

[77] It is sometimes argued, e.g. by Prof. Harry Johnson in a public lecture at the University of Ghana in 1971, that bribery is beneficial because it produces an allocation of resources more nearly approximating a free market allocation. The examples given here lend no support to this view. On the contrary, the evidence suggests strongly that the corrupt practices of these two Ministers seriously aggravated the distortions created by licensing and prevented the application of procedures that would have helped to rationalise the system. The corruption also, of course, gave a strong incentive for the over-issue of licenses, which would weaken the balance of payments.

confined to the tenures in office of Ministers Djin and Armah, i.e. roughly 1964 and 1965, and yet evidence has already been given that neither before nor after this period did the system work smoothly. Certainly, things improved after the 1966 coup but the Economic Survey for 1967 (para. 236) still found the system highly defective:

> "Even though there was some improvement in the issue of licenses, it still needs to be emphasised that the selective allocation of import licenses itself is a non-market mechanism which leaves much to be desired from the standpoint of efficiency. Shortage of raw materials and spares continued to hamper rapid progress generally in nearly all the industry groups..."

Doubtless, considerations such as these, plus the influence of the IMF and external aid donors, induced the NLC to make a modest beginning with the liberalisation of imports that was greatly accelerated by the Busia government.

Examination of the details of the various annual import programmes shows that some of the difficulties were inherent in the very manner in which they were prepared. If they were to be implemented and monitored, these programmes had to be administered by those departments of government directly responsible for the import trade--the Ministry of Trade, and the Department of Customs and Excise. But, for the most part, the programmes were not set out according to the Standard International Trade Classification (SITC) employed by these agencies. Only in 1966 was the foreign exchange budget expressed in SITC categories, and then only at the single-digit level. In all other years the import programmes......

were chiefly specified according to a curious mixture of end-use, industry-of-use, and specific commodity categories. This meant that before they could be given operational content the programmes had to be converted into SITC classes which, at best, created a major additional burden of work for the Ministries of Trade and Industries, and, at worst, resulted in an actual pattern of import licensing substantially different from that intended by the planners. A further consequence was that it was impossible to monitor the programmes unless they had subsequently been converted into SITC equivalents, for the trade statistics follow the SITC, and the end-use composition of imports is only estimated annually after long delays.

Available evidence suggests that mis-specification of the programmes seriously undermined their effectiveness, for it appears that the Ministries of Trade and Industries did not always convert the programmes into SITC equivalents with much accuracy. Take 1968, for example. This year, and 1969, represented the high point in the sophistication of the import planning process. A vast amount of information (or quasi-information) was collected from industrial concerns and others, and a serious, co-ordinated attempt was made to draw up a detailed plan that reflected national needs and priorities. But if one looks at actual specific license issues in 1968 one finds that of the total of N¢201 million no less than N¢89 million were for 'various goods', which covered all kinds of imports. It is hard to resist the conclusion that most of the hard work that had been put into the 1968 programme was rendered futile by the subsequent failure of the licensing authorities to implement it. It is not surprising that the figures of Table 4 show large differences between what the planners intended and what actually happened.

By no means all of the problem arose from the neglect of the planners to specify their intentions by the SITC. The programmes did list a limited number of commodities which could be unambiguously converted into an SITC code and, again, the evidence suggests that the licensing authorities adhered to the import programmes only in the most approximate manner. Table 5 lists all the commodities shown in the 1968 and 1969 operational programmes which can be directly compared with actual imports in those years. Taking the commodities as a group, it shows that actual imports differed from the planned amounts by an average of plus or minus 38% and 39% respectively. In 10 out of 22 observations actual imports exceeded the programmed amounts.

To be fair to the implementing Ministries, it does appear that in some cases the programmers were not very successful in gauging the country's detailed needs; see, for example, the very large shortfalls between planned and actual imports of butter, tobacco (1969), tallow (1968), and maize (1969) shown in Table 5. Another reason for differences between recorded and programmed imports was that there was a considerable spill-over into each year of imports arriving on the basis of licenses issued for the previous year.[78]

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[78] For example, according to Ministry of Trade data 25% of all 1969 imports under specific licenses were covered by licenses issued in respect of 1968.

The import programmes were not adjusted to take account of these spill-overs. Yet a further explanation is that by no means all licenses were fully utilised and, in the absence of advance knowledge of which licenses would be under-utilised, this also was bound to result in detailed discrepancies between the plans and what actually happened. The Ministry of Trade adopted a policy of over-issuing licenses in the expectation that some of them would remain unutilised but, in the absence of specific information on utilisation, tended to exaggerate the extent of under-use of licenses. In some years this was a major factor, for example, in 1965 and 1968.

Granted all this and granted also that the licensing system ought to remain flexible, sensitive to planning errors and changing circumstances, the suspicion remains that the Ministries of Trade and Industries paid rather little attention to the details of the import programme when they came to allocate specific licenses. This, at least, was the view of an inter-departmental committee in charge of the formulation of the annual programmes, for in a memo of March 1970 they complained that,

> "the licensing procedures are diffused and the authorities do not always go strictly according to the details of the programme. In addition, records of licenses issued often lack the necessary details to enable a reclassification on a comparable basis with the programme. Large amounts of licenses issued for instance are classified 'various' and no customs item numbers are given so that it is impossible to ascertain the degree to which the programme is actually being followed in detail by the licensing authorities."

Table 5

COMPARISON OF PROGRAMMED AND ACTUAL IMPORTS OF SELECTED COMMODITIES, 1968-69

(N¢ mn.)

Item	1968			1969		
	Programme	Actual	Difference (%)	Programme	Actual	Difference (%)
Rice	5.7	6.8	+19%	n.a.	-	-
Maize	n.a.	-	-	1.0	0.3	-70%
Milk and cream	8.5	6.3	-26%	7.6	7.9	+ 4%
Butter	0.9	0.1	-89%	1.0	0.25	-75%
Sugar	6.6	8.2	+24%	7.3	8.3	+14%
Fish and fish preparations	2.0	4.5	+125%	3.3	4.9	+48%
Meat and meat preparations	5.7	2.8	-51%	2.3	3.4	+48%
Crude petroleum	12.6	13.6	+ 8%	11.0	14.5	+32%
Lubricants and other fuels	8.4	7.5	-11%	9.0	8.1	-10%
Tobacco (unprocessed)	4.4	3.8	-14%	4.6	0.3	-93%
Tallow	5.1	3.0	-41%	4.4	4.6	+ 5%
Wheat flour	6.3	7.2	+14%	6.8 a/	4.5 a/	-34%
Mean difference			±38%			±39%

Note: a/ Unprocessed wheat.

Sources: Annual Report on External Trade, Vol. 1, 1966-68, C.B.S.: Accra, 1971; External Trade Statistics, December 1969, C.B.S., Accra; Bank of Ghana.

The committee actually went on to discuss whether detailed planning ought not to be abandoned altogether but preferred the alternative, "to encourage the licensing authorities to follow the programmes in some detail or ... give sufficient details of licenses issued to enable us to integrate our efforts on all fronts."

However, co-ordination of the activities of all the relevant government agencies proved an insoluble problem and as late as 1970 Bhatia noted poor co-operation between the Ministries of Trade, Industries, and Economic Affairs, and the Bank of Ghana. Moreover, mere possession of a valid licence did not assure the would-be importer that foreign exchange would be released by the Bank to enable him to use it. Many classes of imports were subject to mandatory 180-day credit arrangements from abroad and not a few importers had difficulty in meeting these requirements. The State Gold Mining Corporation, for example, -- one of Ghana's larger export earners -- was very seriously affected by inability to establish the requisite letters of credit for materials and spares, even though they generally had adequate licenses issued to them. The delays involved in satisfying the Bank's requirement were often such that by the time that credits had been arranged the validity of the licenses had lapsed.

A fundamental difficulty in the way of achieving a detailed import programme that accurately reflected national needs and priorities, and could be smoothly implemented, was the enormous volume of accurate, up-to-date information that it would require. Data would be needed, commodity-by-commodity, on anticipated demand for the coming year, on inventory levels, on local production, and on the input requirements of local producers. Information would be necessary on the financial and managerial capacity of importers to utilise their license allocations, and on the commodity distribution of imports that would spill over from the previous year's licenses. More than this: the machinery of government would have to be able to process this information intelligently and promptly so as to produce from it a carefully balanced import programme. In practice, the quantity and quality of information, and the capacity to absorb it, fell drastically short of the ideal.

Certainly, attempts were made to overcome the weaknesses. Applicants were required to submit detailed information to the authorities but the preparation and processing of it became almost a source of weakness, not of strength. According to the Abrahams Report, 1965 (paras. 102-103):

> "Administrative bottle-necks have bedevilled the issue of import licenses to the injury not only of commercial houses but also of the consuming public. These bottle-necks have arisen from a number of causes which, in our opinion, include the sheer volume of documentation demanded by the former Ministry of Trade, an unwieldy method of validation severally involving the consent and counter-signature of the Minister of Trade, the Minister of Finance and the Governor of the Bank of Ghana--a virtual odyssey .... The administrative congestion has resulted in avoidable delays in the issue of import licences... [which] usually mean delays in the importation of commodities which may already be scarce, and sometimes a total impossibility in importing them."

There were improvements after 1966. A major effort was made in the preparation of the 1968 and 1969 programmes, for example, to obtain detailed information from a large number of industrial establishments. Estimates of import requirements were derived (a) on a macro-economic basis from national accounts projections, (b) from detailed sectoral projections which sought to take account of such matters as expected demand conditions, the desirability of protecting local producers, the raw materials required to produce a given volume of output, the degree of capacity utilisation, etc., and (c) were then reconciled with each other and with expected foreign exchange availabilities.[79/] In fact, the files are a monument to the vast amount of intelligent work that was done. But, quite apart from the failure to implement the resulting programmes, the exercise was subject to a basic difficulty: the very existence of import restrictions and an over-valued currency provides a very strong incentive for licence applicants to present false or exaggerated information in the hope of getting a large allocation. It was well-known that local producers often applied for raw materials greatly in excess of their real needs and naturally presented supporting "information" to reinforce their case. Similarly, importers of final goods were constantly striving by fair means or foul, to increase their own share of the market and thus reap the considerable monopoly profits to be earned from the sale of imports.[80/] Thus, far from being a scientific attempt

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79/ See Bhatia, passim.

80/ Price controls were established on imported consumer goods to prevent importers from earning monopoly profits but I have suggested elsewhere that these were little observed. See Killick, "Price Controls, Inflation and Income Distribution: The Ghanaian Experience," Harvard University Economic Development Report, No. 223, 1972.

to calculate national needs, license allocations had to be made on the basis of bluff and counter-bluff.

That the reforms did produce some effect is suggested by examination of line 11 of Table 1 above, where it will be seen that the mean deviations of actual results from the forecast balance of payments in 1968 and 1969 was smaller than for the three previous years. But the deviations of imports from their planned levels (+27% and +29%) remained large. And that the system made heavy demands upon the time and resources of importers is amusingly conveyed by a suggestion of the Ghana National Chamber of Commerce in 1968 that "the import licensing duties between the Ministry of Industries and the Ministry of Trade should be centralised. This would eliminate the necessity of walking to and from the two Ministries when a manufacturer is arranging for a license."[81]

Conclusions

This paper has been primarily intended to answer two questions:

--to what extent could import controls be said to have succeeded or failed in the nineteen-sixties?

--were the weaknesses that became apparent peculiar to that period or were they so fundamental as to suggest that import controls are simply not workable in Ghanaian conditions except at a prohibitively heavy cost to the performance of the economy?

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[81] Memo to government dated 11 May 1968.

Taking the first of these questions, only partial success could be claimed. Controls were successful in reducing the absolute level of imports and thus protected the balance of payments. But they were unable to exercise sufficient control over total imports to conserve the external reserves in the manner desired and, by focussing attention on the limitation of imports, they encouraged a neglect of export incentives that proved fatal to any basic solution of the balance of payments problem. Controls, on this view, merely postponed the introduction of measures to act on the fundamental sources of weakness in the payments situation.

It is a similarly mixed picture when one turns to the allocative efficiency of the system. The controls were able to achieve substantial changes in the geographical origin and end-use composition of imports in the directions desired by the governments of the day, and they were also able to bring about a significant socialisation of imports during the Nkrumah period. Whether they were as successful in systematically providing protection to local industries is more doubtful, but if one looks at broad trends it could well be said that the controls did what was required of them.

When one goes on to look at the system as it operated at the micro-economic level, it becomes clear that the programmers failed to evolve a system for an efficient commodity-by-commodity allocation of imports. To some extent this was due to the non-economic priorities of politicians but that is only part of the story. The failure to achieve an efficient allocation of foreign exchange resources imposed a major cost on the economy, in terms of output and welfare foregone and also, from time to time, generated a political climate that was certainly not intended by the Government. One reason for this failure, we have suggested, was that governments were seeking to achieve multiple objectives with a single policy weapon.

That the system failed at the micro-economic level is therefore not surprising, and this is especially the case in view of the administrative problems described in the previous section. For a variety of reasons, the import programmes were only very loosely implemented when it came to the details, and this and other factors resulted in an actual detailed composition of imports that bore only the most approximate relationship to the intentions of the planners. It was not so much that the programmes failed at the micro-economic level; in a real sense there was no programme at that level.

This brings us to the second question: were the causes of the shortcomings remediable or so fundamental as to call into question the feasibility of successful import programming at this stage of Ghana's development? One aspect of this is whether serious corruption is intrinsic to licensing in Ghana. The evidence so far is not encouraging. Corruption and controls are bed-fellows in many countries,[82/] and Ghana's own recent history has shown that it

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[82/] See Gunnar Myrdal, Asian Drama, Twentieth Century Fund, New York . . . . and Little, Scitovsky and Scott .

takes more than changes in governments, civil servants and procedures to overcome the strong incentives that are created for bribery when a country with an over-valued currency resorts to import licensing. However, even if corruption were a remediable condition, its elimination would not get rid of many of the serious problems that emerged with import programming in the sixties. For two or three years large-scale corruption had a serious effect on the efficiency of the system but even in periods when there were no allegations of large-scale corruption controls did not work smoothly as an allocative device. There were various other major sources of difficulty besides. This point was put clearly by the committee charged with the preparation of the 1968 import programme. In a memo dated April 1968 they said, "It is evident ... that the successful organisations and implementation of the import programme in the present situation <u>is no longer merely a question of seeking integrity and orderliness in the issue of licenses</u>. It is a highly complex economic exercise requiring continuous review and co-ordination between the various agencies of the Government and great flexibility in execution" (my emphasis). The need has been stressed above for a high level of co-ordination (a) between the import programmers and those responsible for overall macro-economic policies, and (b) between the various agencies involved in the preparation and implementation of the programmes. There seems no intrinsic reason why this should not be achieved, but co-ordination implies a level of administrative efficiency that may not be realisable in Ghana's present public administration.

One source of difficulty that is indisputably intrinsic to the operation of import controls is the impossibility of satisfying the requirements of the system for information. It is not merely that only limited data are actually available; the very situation that necessitates controls also creates strong incentives for intending importers to supply false information in support of inflated licence applications. This informational problem greatly complicates the task of preparing a detailed programme that bears a reasonable relationship to the import needs of the economy. It also hampers the co-ordination and flexibility mentioned in the previous paragraphs, and the task of monitoring the programmes once they have been accepted.

We have also noted various more specifically administrative shortcomings, including an apparent unwillingness or inability to implement the programmes that were drawn up, and slow procedures for processing applications and issuing licenses. How easy it would be to overcome these deficiencies is a moot point. A smoothly operating licensing system demands large inputs of skilled administrative talent which at Ghana's stage of development are in very short supply. This explains why, at the end of March 1969, the 'General Administration' section of the Ministry of Trade had a total of only 45 officers in the administrative class to carry out an extremely wide range of functions additional to the administration of import controls.[83/] To raise the standard of administration in the relevant agencies of Government will certainly not be easy, nor will it be achieved overnight.

Perhaps the best way of assessing the intransigence of the problems is to ask the question, how efficient had the system become by 1968-69, after several years' experience had been gained and when a major effort was being made to increase its sophistication? The question has already been answered: the system was working more efficiently than in the earlier sixties; it was nonetheless still generating considerable problems and, at the microeconomic level, the programmes were scarcely being implemented. The NLC, as was noted earlier, appeared to recognise the difficulties of improving the sytem to a desired level of efficiency and began the process of liberalisation that was taken much further by the Busia government.

Given this history, it is hard to resist the conclusion that, as a device for protecting the balance of payments and for

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[83/] Twenty-six of the forty-five were in the most junior grade of the administrative class of commercial officers--see Annual Estimates for Ministry of Trade, 1969/70, Ministry of Finance, Accra, 1969. Page 5 of this document describes the responsibilities of the 'General Administration' section to include the following: commercial policy; trade relations, including negotiation and implementation of trade agreements; correspondence on trade matters with foreign governments and firms; status reports on Ghanaian and foreign firms; handling of trade complaints; direction of Ghana's overseas trade missions; servicing of international organisations; administration of import controls; administration of price controls; preparation of monthly reports on regional supply and price trends; regulation of or liaison with a variety of para-statal and private organisations; provision of secretariat to deal with immigration quotas.

allocating scarce foreign exchange in Ghana, controls will work only imperfectly and the imperfections are likely to be serious. The decision of the new military government in February 1972 to revalue Ghana's currency in the teeth of a balance of payments crisis left them no feasible alternative but to revert to wide-ranging controls. But it is a decision they may well come to rue.

If, as was argued early in this paper, Ghana was in a relatively strong position to make controls work in the sixties, a further conclusion is suggested by her experiences: that import controls may well prove to be an inefficient, high-cost instrument of economic policy in most tropical African countries.