POLITICAL INDEPENDENCE AND ECONOMIC DECOLONIZATION: THE CASE OF GHANA UNDER NKRUMAH

John D. Esieks
Northern Illinois University

At their dates of independence from colonial rule virtually all the new states of Asia and Africa faced a similar economic and political challenge: foreign private enterprise dominated many of the monetized sectors of their national economies and, in so doing, controlled the utilization of major proportions of the countries' natural, physical-capital, manpower, and financial resources. This paper examines how one new state confronted the phenomenon of extensive foreign-wielded economic power within its boundaries. The main subjects of inquiry are the strategies adopted for attaining economic decolonization, the constraints encountered in the pursuit of that goal, the extent to which alien control of resources was reduced between 1957 and 1966, and the political and economic costs of the decolonization achieved.

In the first four years of Ghana's independence, the government headed by Kwame Nkrumah adopted policies toward foreign private capital which amounted essentially to a strategy of competitive coexistence. Enterprises controlled by the state or the majority Convention People's Party (CPP) were newly established or expanded to compete with expatriate firms in banking, insurance, shipping, timber extraction, construction, and manufacturing. Modest loans programs aided local businessmen in the last three fields as well as in trading. However, with the exception of the favored treatment normally given to state and CPP enterprises in the awarding of government contracts, no restrictions were imposed on the operations of foreign firms in these sectors; and because of the then still limited capacities of their Ghanaian competitors, they continued to dominate. Actual nationalization occurred in only two, relatively minor fields: the internal marketing of cocoa and the foreign sales of timber logs.

Coexistence with, or the highly cautious confrontation of, foreign economic power has been characteristic of most new states in the first several years of independence. In examining government decision-making in Ghana's case, we find three constraints which most probably have operated in many other states where

Note: The findings summarized here are taken from an on-going study of economic decolonization in Ghana which was supported by grants from the Foreign Area Fellowship Program and was greatly facilitated by my affiliation with the Institute of African Studies of the University of Ghana. I am indebted also to Elliot Berg, Henry Brettin, Reginald Green, and Baird Shuman for their comments on earlier drafts of this paper.

1 In March 1957, when Ghana gained her political independence, over 90 percent of the country's import trade was in the hands of foreign firms; two British banks shared about 90 percent of all banking business; expatriate companies held 96 percent of total timber concessions; foreign investors owned all functioning gold mines and controlled about half of the annual diamond production; general insurance was entirely in the hands of expatriate firms; and foreign companies earned the bulk of total receipts in the small manufacturing sector. See my dissertation, "Economic Independence in a New African State: Ghana, 1957-63" (Ph.D. dissertation, Harvard University, 1967), chap. 1.

2 The external marketing of cocoa had been a state monopoly since World War II.
progress in reducing alien control of the economy has been slight. In the first place there was the fundamental restraining factor of insufficient skilled manpower, recruitable locally or abroad, to implement various schemes proposed for replacing foreign with indigenous enterprise. For example, in the years 1958–60 the Nkrumah government explored the feasibility of establishing state corporations in importing and insurance which, after several years of development, would be granted the legal right to monopolize their respective sectors. Neither project got off the ground, primarily because competent managerial personnel could not be found.8

A second significant constraint was the meager capability of Ghanaian public and private enterprise to generate industrial investments. In the period 1957–60 the only significant external source for industrial capital appeared to be direct foreign private investment, that is in enterprises directly controlled by the investors. Nkrumah and his Cabinet expected this dependence on overseas investors to continue,4 and they accepted its apparent corollary that, if the government were to restrict severely or expel expatriate enterprises then operating in commerce, timber, or other sectors, it would become highly difficult to attract desired new investments in industry.6 Nkrumah was particularly eager to secure investors for the aluminum smelter component of the Volta River Project (VRP), whose hydroelectric station, large artificial lake, irrigation potential, and other features he and many Ghanaians considered to be the keys to the country’s successful modernization. To construct the dam and generating facilities, the Ghana government required almost $100 million in hard-currency loans. The World Bank and other creditors indicated that loans would be forthcoming if, among other conditions, Ghana could attract foreign aluminum interests to build and operate a smelter. The latter’s consumption of electric power was expected to be sufficiently high to make the hydroelectric project self-financing.4 So vital was foreign private investment to the VRP and the VRP to Nkrumah that major economic policy innovations had to pass the test of not scaring off prospective investors for the smelter. One proposal which failed this test was to grant to an oil refinery — to be developed by the Italian state petroleum trust, Ente Nazionale Idrocarburi, and eventually to be owned by the Ghana Government — a monopoly over the importation of crude oil. One or more of the international oil companies thus threatened with loss of their Ghana markets warned that, if they were pushed out of Ghana, the precedent would most probably discourage American investors then interested in the VRP’s aluminum smelter from risking capital in Ghana. Senior civil servants responsible for the VRP’s

---

8 Interviews with members of government committees appointed to explore the feasibility of the two projects.

4 “The principal agents of industrialisation during the next five years will have to continue to be foreign private industrial firms.” Ghana, Second Development Plan, 1959–64 (Accra: Government Printer, 1959), p. 16.

6 Interviews with three senior civil servants of that period who worked closely with Nkrumah on industrial development policies.

implementation advised Nkrumah to take this warning seriously, and the planned import monopoly was shelved.7

A third constraint was the conflict within the government and majority party as to whether collective or private enterprise should be the principal beneficiary of whatever economic decolonization was undertaken. On economic and ideological grounds, Nkrumah favored a socialist pattern of development.8 Moreover, he feared that the emergence of a strong indigenous capitalist class would undermine his own preeminence in Ghanaian politics. He once remarked to Kojo Botsio, a Cabinet minister, "Any Ghanaian with a lot of money has a lot of influence; any Ghanaian with a lot of influence is a threat to me."9 It was safer to coexist with foreign capitalists, who lacked local roots and whose capacity to buy political influence, Nkrumah believed, could be effectively curbed. However, until mid-1960 he faced in his government and party a right wing (including the Ministers of Finance and Trade) powerful enough to compel him to give lip service to the virtues of a mixed economy, to approve minor aid programs for several groups of Ghanaian entrepreneurs, and to promise large-scale assistance for the future.10 He had no intention of giving in to such proposals as to underwrite a bank for indigenous contractors or to reserve certain categories of imported goods to Ghanaian merchants. But to proceed with substantial economic decolonization of the fashion he desired — exclusively through state-controlled enterprise — would have alienated interests whose political support he still needed.

By 1961, however, support from that direction no longer appeared necessary. Through adroit maneuvering and coercive means, he had eliminated or neutralized political opposition from traditional elites, professional groups, and other elements outside the CPP.11 Disaffection within his party's right wing could then be afforded. The year 1961 witnessed the end also of the attitude of dependence on direct foreign private investment for the country's industrial development. The governments of six Communist countries offered to equip factories for the state sector on attractive terms—2.5 to 3 percent interest with up to twelve years in which to repay the loans.12 Another source of industrial credits upon which the Ghana government began (in 1962) to rely heavily was contractor and supplier finance from Britain and Western Europe. Private construction and manufacturing firms, usually with the support of the export guarantee agencies of their govern-

---

7 Interviews with two senior civil servants of that period who were responsible for the VRP's implementation.


9 Reported by Botsio to P. K. Quaidoo, former Minister of Trade and Industries, interview with Quaidoo in Accra, January 1968.

10 See speeches by Nkrumah reported in Ghana Times (Accra), May 1958; Ghana, Parliamentary Debates, 11 (July 18, 1958), 328; and Ghanaian Times, August 15, 1960.


ments, offer to developing countries like Ghana entire factories or industrial machinery and equipment on credit terms. Such credits had been available to Ghana before 1961 or 1962, and a number of project salesmen had visited Accra. However, their proposals had involved excessive interest rates, high down payments, or other conditions unacceptable to the senior civil servants who processed their proposals and had the capacity to block them. By 1962 some of those officials had been retired, and credit salesmen had begun to cultivate Nkrumah and other decision makers who were inexperienced or less concerned with costs than with rapid industrialization, their Ministry's empire-building, and/or their expected "commissions." 14

Another essential condition for liberating Nkrumah's economic policies from the inhibiting requirements of a "positive investment climate" was a final decision on the VRP as then conceived. This came in 1962, with two American aluminum companies agreeing to develop the smelter and with the World Bank and the governments of the United States and the United Kingdom agreeing to lend $98 million to Ghana.

Shortages of skilled manpower continued to restrain economic decolonization, causing, for example, the frustration of another scheme to establish a state importing monopoly and plans to redistribute timber concessions from foreign to Ghanaian hands. Manpower constraints affecting export sectors weigh more heavily during the balance of payments crises which chronically plague most developing countries. In 1963, after two years of serious external payments deficits and of mismanagement by the state timber marketing agency, the Ghana Government felt compelled to "denationalize" timber marketing. To give the marketing board more time in which to improve its performance and reverse the downward trend in sales was considered too risky.

The strategy of economic decolonization followed in the 1961-66 period was that of gradually expanding state enterprises while restricting the competing private, mainly foreign firms through administrative discrimination, particularly in the allocation of import licenses. For example, the state's Ghana National Trading Corporation was assigned almost all the licenses issued in 1963 for the basic consumer commodities of flour, sugar, rice, milk, and canned fish. 15 The achievements of Nkrumah's government in increasing the Ghanaian (state-controlled) share of sectors were considerable. By 1965 the state importing enterprise handled 35 percent of the country's total commercial imports; the state insurance corporation transacted about 50 percent of all insurance business; the government's commercial bank accounted for over 60 percent of total deposits; the state-owned

---

14 Interview with a member of the Cabinet-level Standing Finance and Development Committee, 1957-60.

15 For an excellent discussion of the nature and costs of contractor and supplier credits, see the article by Saver P. Schatz, "Crude, Private Neo-Imperialism," Journal of Modern African Studies, 7 No. 4 (1969), 677-86.

16 As many as half of all 1963 import licenses were endorsed "Insurance in Ghana pounds with the State Insurance Corporation," i.e., these licenses were valid only if the insurance policy on each shipment was taken out with the government's insurance enterprise. Some of the same licenses had the additional stamp "Shipping via Black Star Line," the state shipping enterprise. Minutes of the Meeting of the Ghana Insurance Consultative Committee with the Minister of Finance regarding Marine Insurance, 22 June 1963.
Black Star Line carried about 17 percent of Ghana's sea-borne commerce; the government's Ghana National Construction Corporation had succeeded in displacing almost all private contractors from the largest subsector of building and construction, that financed by public funds; and the factories owned by the state or partnerships between government and private interests produced 27 percent of total output in manufacturing.\footnote{See my paper, "Economic Decolonization in a New African State: Ghana, 1957–66" (paper delivered at the Eleventh Annual Meeting of the African Studies Association, Los Angeles, California, October 18, 1968), pp. 11–12.}

Successful economic decolonization cannot be defined, however, exclusively as increases in the percentages of sectors' outputs attributable to local enterprise. There could be extensive Ghanaianization or Kenyanization in that respect, but at the expense of serious dislocation in the sectors affected and of the consequent reductions in volume and/or quality of goods and services produced, in employment levels, capital formation, and the economy's general growth. Moreover, any multi-sector effort to transfer control of resources from foreign to local hands will satisfy some politically significant indigenous groups but alienate others. The acceptable levels of economic and political costs will vary, according to the particular regime's resilience and its valuation of the achieved or expected benefits of decolonization, such as reducing the role of alien merchants in rural areas, satisfying demands of left-wing nationalists, realizing savings in foreign exchange through the operations of a national shipping line and insurance enterprise, and exercising greater government control over a vital export like cocoa. These and other gains were achieved by the Nkrumah government. But the aggregate costs were so high that they would seem to have contributed significantly to the destruction of the CPP regime in early 1966.

The economic costs included: (1) severe losses in timber export revenues due largely to mismanagement by the state marketing agency; (2) shortages of imported consumer goods resulting mainly because the government's trading corporation was assigned licenses for more goods than it could distribute and competing private firms with efficient distribution networks were denied licenses; (3) extensive wastage of public funds and scarce foreign exchange (for import licenses) for poorly planned and managed state manufacturing enterprises; (4) a depression in the economy's private sector caused mainly by discrimination in allocating import licenses and the government's apparent hostility to private enterprise; and (5) the large external debt represented in the state-owned factories and cargo ships financed by Communist states and Western private sources.\footnote{As of November 30, 1964, the principal and interest payments due on credits for manufacturing enterprises and the government's shipping line amounted to $128 million or 32 percent of the Ghana Government's total foreign debt at that time. Ghana, \textit{The Budget}, 1965 (Accra: Government Printing Department, 1965), Pt. IV, p. 45.} By December of 1965 the debt burden had become unmanageable, and the government was compelled to plead with its foreign creditors to reschedule payments. Therefore, the Nkrumah government's efforts to reduce the relative influence of foreign enterprise in manufacturing and shipping had the ironic consequences of opening potentially the whole economy to greater foreign control, i.e., creditors demanding as the price...
for rescheduling payments changes in government economic policy to favor their interests.

Included in the political costs of the economic decolonization achieved under Nkrumah were (1) the disaffection of Ghanaian businessmen opposed to the general emphasis on state enterprise and of Ghanaians ideologically opposed to socialism; (2) the specific grievances of indigenous merchants (wholesalers and retailers), contractors, and manufacturers who resented competition from state enterprises and the preferential treatment given to them in such matters as import licenses and government contracts; (3) the dissatisfaction of consumers unable to buy flour, milk, and other imported basic goods because of the malfunctioning of the state trading corporation's monopoly; and (4) the hostility of Ghanaian workers laid off from private firms unable to function at normal capacity for lack of imported raw materials, building supplies, goods for trade, etc., licenses for which had been assigned to state enterprises. Ideally, the expansion of the public sector would have absorbed such workers and would have provided for adequate distribution of goods and the performance of other functions which private firms could no longer carry out. However, to achieve this kind of coordination was beyond the Nkrumah regime's capabilities.

Regardless of whether the strategy for economic decolonization emphasizes state or local private enterprise, some substantial costs are highly likely, if only in the form of temporary unemployment, breakdowns in distribution, or losses of export revenues. But a statist strategy would seem to risk greater political costs. Not only must the government bear the hostility of indigenous businessmen denied the spoils of decolonization; it must also accept full responsibility for the economic costs. The blame for the latter cannot be shared with or passed on to local private enterprise, as would be possible with a mixed state-private or largely private entrepreneurship strategy.