

A CRISIS OF CONFIDENCE IN GHANA – REAL OR IMAGINED? WHAT DO WE DO ABOUT IT?

The time for partisan politics was in 2008. In the Fourth Republic, we have had the opportunity to behave as if managing the economy is like playing in the Premier Football League, keeping score and just collecting points to determine which team wins the trophy. The trophy has been about who wins power. Unfortunately, so far, getting power has not been about who delivers prosperity to the masses of Ghanaians. During the 2008 elections, the score keeping was more about who had been more corrupt, more vindictive and had left more problems in the Fourth Republic. NDC had the first chance to manage the economy. Then the NPP was given a chance. Now the NDC is back. We are still where all our political leaders like to promise we will not be – a raw material exporter and reliant on development assistance from other countries. The majority of our people still live in poverty without the essentials of life. Our experience so far should make all of us swear to separate politics from the management of the economy. It should be abundantly clear also that the NDC-NPP blame game will not help us build a better Ghanaian economy. The fact of the matter is that after all the best efforts of the political administrations that have managed the economy since 1993 we are suffering from a severe crisis of lack of confidence.

In Ghana, 2009 is going to be a challenging year. Unfortunately, what we are experiencing is not new in our Fourth Republic. We went through similar challenges from 1999 to 2002. We are feeling the effects of global economic difficulties combined with self-inflicted problems. Inflation is inching dangerously close to 19%. The Bank of Ghana's prime rate has gone up to 18.5%. We are selling one dollar today for 1.40 GHC and buying it for 1.50 to 1.60 GHC. Those with a pessimistic (or perhaps realistic) outlook are forecasting buying the dollar for 1.8 to 2.00 GHC by the end of September this year! The cumulative effect of this is that money is scarce and when it is made available is becoming very expensive. The ordinary person is borrowing at 48% per annum with the urban and rural poor borrowing at 5 – 8% per month or 60 to 96% per annum. Some businesses have started going back to the old practice of tying prices to the US dollar a clear indication that our system is going to become a very difficult one indeed by the end of this year **if something different is not done soon to change business attitudes and decision-making with regard to pricing.**

Extraordinary challenges require extraordinary solutions. That is why America is throwing the free market system aside at least temporarily and adopting government intervention methods to save its domestic economy. This is not the time to stick to conservative, macroeconomic stabilization policies that aim to protect the economy against the people. This is the time to align economic policy to the interest of the people so that jobs are protected and the standard of living is not eroded. In 2001, the Kufuor Administration took the extraordinary step of making Ghana a HIPC nation. Acting with humility

quickly bought the system some time, gained cash inflows that brought stability to the system and was rewarded with significant debt reduction. That was only a temporary reprieve that required long-term measures to strengthen the local economy. For this to have worked well we needed move from stability to a growth orientation. The economy grew but not to the levels required. We are back to needing another extraordinary measure – but HIPC is no longer an option. We must now find a different solution. I suggest that this is the time to find home grown sustainable solutions.

What is happening in America and Europe in particular tells us that no government can afford to stand by and be a spectator when the very livelihood and viability of the country; and the prosperity of the people are threatened. During World Wars I and II, it took the government of America to create business opportunities for the private sector and jobs for millions of unemployed Americans. Over the past 12 months, the American government has considered the fact that its economy had lost over 3 million jobs. It is reported that the U.S. government is considering converting about \$45 billion of preference shares into common shares which will make that government a 40% shareholder in Citigroup one of the biggest financial institutions in the world. The American government already is holding up the biggest insurance company American International Group Inc. (AIG), and others. Indeed, AIG recently reported a 4th Quarter 2008 loss of about \$62 billion the highest loss in corporate history and yet the American government says it cannot afford to let that company collapse. What options are available to Ghanaian industries that are facing collapse?

In the United Kingdom, the financial institutions there are also being bailed out by the government. Lloyds Banking Group was given 4 billion pounds while the Royal Bank of Scotland received 5 billion pounds to protect their assets and prevent the financial institutions from collapsing. Already, the UK government owns Northern Rock a bank it invested in as a last minute attempt to save it from a sure death.

President Obama on Tuesday February 24th gave a speech to a joint session of the Senate and the House of Representatives in Washington, DC on his plan to repair the American economy. His speech gave a very clear indication of how difficult the American financial situation has become. When an American government that professes to believe in the market and free enterprise finds it necessary to break away with long-held practices to intervene directly in the market, then we must know that the situation has assumed extraordinary dimensions. It is for this reason that President Obama said that America invented the automobile and its government could not stand by and watch the automobile business collapse in that country. Even for America, this is not the first time its government has intervened in the market to protect American jobs and the livelihood of its people. Yet, in Ghana, we allow international agencies to make us allow the market to make us become more dependent on foreign goods and services.

All of these domestic and international difficulties mean that we must now take firm steps to domesticate the economy. This requires a different kind of approach to managing the economy. For example, we must ask ourselves if it is prudent in today's world for the Bank of Ghana to raise the prime rate to 18.5% and attempt to restrict lending when there appears to be a shortage of funds to be lent for productive purposes. Already, a number of international financial institutions and companies in Ghana have started to restrict lending and growth.

In the short term, President Mills must tell Ghanaians what specific measures he is taking to bring confidence into the system. What are we going to do to limit imports and encourage the consumption of domestic products? What are we going to do to reduce the cost of borrowing for productive purposes for businesses? What is the President going to tell Ghanaians that will give the administration the benefit of the doubt by trading in Cedis, keeping funds in Cedis and ensuring that funds are kept in local accounts? I am confident that President Mills will get many to support him if he takes strong steps to bring the economy home so that we can achieve self-determination.

For long term success, we still need to remove politics from our strategy. It would benefit the country greatly if President Mills assembled the leading politicians, business leaders and financial experts including the Bank of Ghana to agree on a Ghana strategy to create jobs, reduce the cost of borrowing and provide the enabling stimulus to assist the economy to grow. This way, we can all work with the same blueprint and for political purposes Ghanaians would just have to decide which team would best implement that national strategy.

The crisis of confidence is real. The flight of dollars from the system is real. Saving dollars instead of Cedis is real. We need to recognize that this cannot be encouraged as a means of making our exports cheaper and imports more expensive. This Ghanaian economy needs an innovative local solution that will encourage domestic production of the essential goods and services we need while supporting our private sector to add value to raw materials for export. This requires government support and direct assistance. No foreigner will lead us to meet these objectives. It will require sacrifice and a patriotic spirit only we can muster with the right crusading leadership.