

Institutional factors, growth and inequality; and possible implications for Ghana

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Introduction

- Reasonable record of sustained growth in Ghana over 20 years – but not very pro-poor
 - Inequality increased over 1990s
 - And regional variations in growth
- Is there scope for faster and broader based growth in future – including in north?
- Can we learn anything from recent international work on institutional factors and growth?

Institutions and growth

- Investment of key importance for growth
 - What creates an environment where people are willing to invest?
- Hausman, Rodrik and Velasco list key factors limiting growth as follows:
 1. Returns to investment are low
 - e.g. poor infrastructure, low human capital
 2. Returns cannot be privately appropriated
 - e.g. inadequate property right protection, high tax
 3. High cost of finance
 - e.g. low savings, poor financial intermediation

Institutions and growth (2)

- All have important institutional dimensions (not just government!!)
- Extensive cross country evidence highlights importance of good institutions for growth
 - Secure property rights (rule of law, risk of appropriation, government commitment to contracts)
 - Growth sustaining institutions: institutions for regulation; macro stability; and conflict management

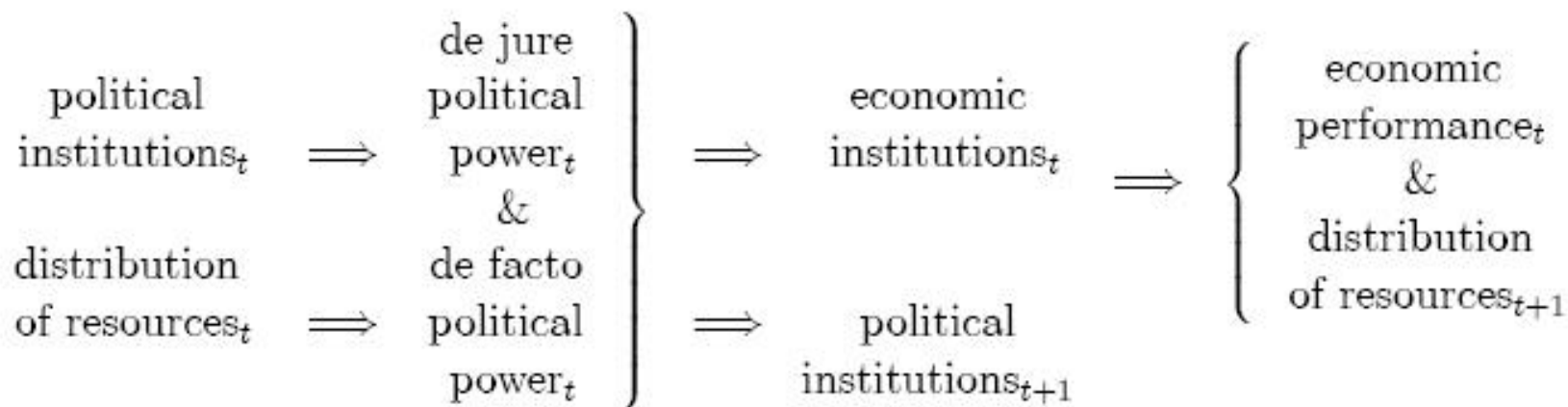
Institutions and growth (3)

- Human capital also important for growth: investment affected by employment opportunities, quality of schooling, health facilities etc.
- For pro-poor growth need to focus on ability of poor to invest in both physical and human capital: what type of institutions matter?

Inequality and growth

- Plenty of international evidence that inequality is bad for growth
- Quality of political institutions also matters – and this may be shaped by inequality
- High inequality may lead to more elite capture and worse institutions (economic and political)

Inequality and growth (2)



- May be strong persistence of inequality
- Evidence that democracy is associated with better property rights in more equitable societies; but not in a highly unequal societies

Inequality and growth (3)

- High inequality may also lead to less collective action
- Weakness of political rights – as well as poorer rule of law – also associated with worse literacy and life expectancy outcomes

Questions for Ghana and the North?

- Sustained growth; but record on private investment remains weak after > 20 years of economic liberalisation and 10-15 years political liberalisation
 - Why the lack of willingness to invest?
- Private investment particularly weak in northern Ghana
- Options for the poor to invest?

Ghana/The North (2)

- Democratic political environment with moderate inequality – but inequality rose over 1990s
- Inequality definitely an issue within North

Locality	Gini coefficient (1998/99)
Accra	0.27
Urban Coastal	0.36
Urban Forest	0.32
Urban Savannah	0.28
Rural Coastal	0.34
Rural Forest	0.30
Rural Savannah	0.38
GHANA	0.38

Ghana/The North (3)

- What are the dimensions of that inequality? And what impacts does it have? For example:
 - Does it discourage collective action?
 - Impact on service delivery effectiveness and infrastructure provision
- How to enhance effectiveness of the financial sector?

Ghana/The North (4)

- Effectiveness of institutions to manage conflict?
- Encouraging the poor to invest
 - What sort of institutions are needed to help manage risk more effectively?
 - Are political rights broadly based?
- What are the key institutions that really matter in Ghana; and how can they be developed?