Case Study 5

Institutions, Inequality, and Incomes: Ghana and Côte d'Ivoire

Ghana's development has exceeded expectations—at least after many disappointments. Côte d'Ivoire (CIV) started with many apparent advantages, but on many economic measures, Ghana has closed the development gap that existed between itself and CIV at independence.

It is recommended to read Chapters 2 and 5 in conjunction with this case. These country illustrations provide further interpretation of the more general research discussed in those chapters.

A Natural Comparative Case Study

Ghana and Côte d'Ivoire (CIV) border each other in West Africa. Their land area is similar in size at 92,456 square miles (239,450 km^2) and 124,502 square miles (322,458 km^2), respectively. Their populations are also similar, with 23.8 million people in Ghana and 21.4 million in Côte d'Ivoire in 2009. Becoming independent within three years of each other and also sharing similar geographies, these adjoining countries make for a natural comparison. One of the most striking differences is that Ghana was part of the British Empire from 1821 to 1957, and Côte d'Ivoire was a French colony from 1842 until 1960. (Note however that full colonial rule took a long time to become established throughout the territories of these countries; the French were still fighting to extend their presence into the early years of the twentieth century.)

How did these colonial histories matter? Did their influences extend after independence, affecting later development policies for good or ill? Or have other, internal factors been more decisive? Can this help us to better understand why it is so challenging to sustain high growth, eliminate poverty and hunger, and to achieve the other Millennium Development Goals?

The experiences of a half century after independence illustrate some of the opportunities for and threats to development. This case study raises thought-provoking questions and presents the types of information one would weigh in addressing this and other comparative country studies. This case illustrates how the frameworks and many-country statistical studies of Chapters 2 and 5 can be applied to understanding development experiences in comparative perspective. The richness of culture and nuances of complex political histories are abstracted to feature some broad approaches and findings in development economics in a short space. Readers are encouraged to explore these leading African nations in detail.

Poverty and Human Development As reported in the UNDP's 2009 *Human Development Report*, Ghana is considered a medium human development country, with an HDI of 0.526, while Côte d'Ivoire is considered a low human development country with an HDI of 0.484. In the 1990 report, when the HDI was introduced, the numbers were 0.393 for CIV and 0.360 for Ghana. Both made progress, but Ghana much more so. On the new HDI introduced in the 2010 report CIV ranks 149th (at 0.397), while Ghana ranks 130th (at 0.467). And the 2009 *HDR* Human Poverty Index (see note 11) for Côte d'Ivoire was 0.374, ranking 29 places lower in the country rankings based on human poverty than income poverty (the fraction under \$1.25 per day). This suggested that what the UNDP termed *human poverty* is relatively worse in CIV than even its income poverty would suggest. Ghana's HPI was significantly better, at 0.281 (with its ranking as predicted by its income poverty).

The UNDP's new Multidimensional Poverty Measure Index (MPI) is even more revealing. Ghana's MPI is 0.140, giving it a ranking of 57, which is the same country ranking that Ghana holds on the fraction of population living on less than $1.25 a day. In contrast, CIV's MPI rank is much lower at 78 with a value of 0.320—more than double the level of Ghana—and substantially worse than predicted by CIV's income poverty ranking. CIV is about halfway between the best performer (Slovakia and Slovenia at 0.000) and the worst performer (Nigeria at 0.642); but Ghana's score is well under a quarter of the way from no poverty to the poverty level of Niger.

These outcomes would have surprised many who wrote at the time of independence. In 1960, Ghana had a real GDP per capita of just $594, far behind Côte d'Ivoire's $1,675; but in 2007 according to the *Penn World Table*, Ghana had reached $1,653—a gain of 278% and nearly enough to close its original deficit—while CIV increased to $2,228, a modest gain of just 33% after 47 years. Ghana has reached current parity with CIV on life expectancy; in 1960, life expectancy in CIV was 51 to Ghana's 46; but in 2007, each had a life expectancy of 57. In 2008, under-5 mortality was 114 in CIV and a still high but significantly lower 76 in Ghana. Aysit Tansel shows that by 1987, Ghana was well ahead of CIV in mean years of schooling by each gender and across age groups. Today the adult literacy rate is 65.0% in Ghana versus 48.7% in CIV. Highly credible information on the extent of extreme poverty in these countries is difficult to find, but it is not doubted that at the time of independence, poverty was far higher in Ghana. Using 1987 surveys, the World Bank put dollar-a-day poverty at just 3.28% in CIV that year but 46.51% in Ghana; as of 2010, its most recent comparable figure for Ghana (from a 1998 study) is 36% and for CIV (2002) is 16%. It appears that over time, poverty has fallen in Ghana and risen in CIV. Progress in both countries is small in comparison to East Asia; but the differences between these countries are significant. How can we begin to understand such differences? Sometimes even recent changes in the patterns of development can have long historical roots, and we consider this first.

Factors in Comparative Development

The Colonial Impact and the Legacy of Institutions

The Portuguese built a fortress on the coast of Ghana in 1482 and named it Elmina ("The Mine"). Later, the British named this area the Gold Coast, as it was known until independence in 1957. Côte d'Ivoire (Ivory Coast) received its name from the French. These names apparently reflect how the colonial powers viewed the territories: as "coasts" rather than nations; as commodities for trade rather than people, or simply as a mine. The colonialists' priority of resources over people could not have been more obvious. Ghana suffered earlier and more from the impact of the slave trade. But Côte d'Ivoire also suffered ill treatment, including a brutal campaign by the French to subdue the "interior" in the late nineteenth and early twentieth centuries and impose forced labor. How do we understand this terrible colonial experience and its possible aftermath? Settler mortality was stunningly high in these two countries, each with an estimated 668 deaths per 1,000 per year, among the highest in the study of Acemoglu, Johnson and Robinson (AJR); for comparison, the rate was just 15.5 in South Africa.* (Conclusions of research citied here are based on multi-country statistical analysis not on case studies; we are taking such research as a starting point for issues to consider when conducting more in-depth comparative case studies).

Institutional Quality

The expectation is that inherited institutions should be particularly bad in these two countries because colonialists would have had little incentive to protect property rights, encourage investment, or allow broad access to economic opportunities or political participation; instead, in stark terms, the incentive was to steal or have others steal for you.

*According to the AJR dataset, which is based on the work of the historian Philip Curtin, the other highest-mortality colonies were Togo, Gambia, Mali, and Nigeria. By contrast, the death rate was just 14.9 in Hong Kong, and 17.7 in Malaysia and Singapore. (Settler mortality is well-established as an instrument for early institutions, and we examine two countries with identical settler mortalities giving attention to additional elements.) Some observers view CIV as having a more dependent relationship with France, while Ghana diversified more its international relations.

In their data for current institutional quality, the "average protection against expropriate risk" was 6.27 in Ghana and 7.00 in CIV, compared to a range from 3.50 in the Democratic Republic of Congo (known as Zaire at the time) to 10.00 in the United States—better, though not spectacularly better, investor protection. But a range of recent studies give higher marks to Ghana. Although all-country rankings of institutional quality should be used with caution, as they can contain subjective elements; when a group of independently produced indicators with different focuses all point in the same direction, they become suggestive (though still never substituting for careful country-specific appraisal). Regarding corruption perceptions, according to Transparency International, Ghana ranked 69th and CIV 154th out of 180. Regarding "ease of doing business," the World Bank–International Finance Corporation 2010 rankings of 183 countries listed Ghana as 92nd (7th in sub-Saharan Africa) and CIV as 168th (32nd in the region). Regarding democracy, the *Economist* listed Ghana (ranked 94th of 167) as a mixed system and CIV (ranked 134th) as authoritarian. And on current property rights protections, a ranking sponsored by the *Wall Street Journal* and Heritage Foundation placed Ghana 50 on a scale of 100 and CIV just 30. Critics point out limits and flaws of these sources, but they are consistent and do conform to a common observation that institutional quality has gotten worse in CIV and improved in Ghana. So this, too, must be better understood. Is it because things had gotten so bad in Ghana that reform became the only option?

Ethnolinguistic Fractionalization Another feature associated in the economics literature with low incomes and growth is ethnolinguistic fractionalization, with some social scientists also pointing out the potential dangers of religious fractionalization. In fact, both countries are fairly highly fractionalized, but CIV more so. Both countries have an Akan majority (45% in Ghana and 42% in CIV) and many smaller groups. In Ghana, the population is 69% Christian and 16% Muslim, but in CIV, adherents are much more evenly divided, with 39% Muslim and 33% Christian. Although scholars debate the proper way to measure fractionalization, seven main measures are used, with CIV higher on six, in some cases substantially higher.[†] CIV was torn by civil war in 2002 that has split the country, and the opportunistic use of fractionalization by political figures is an important factor.

Population Patterns of population growth are often considered an important aspect of development as discussed in Chapter 6. At independence in 1960, the population of CIV was just 3.6 million, so it grew about 5½ times by 2007. In contrast, Ghana's population was already nearly 7 million in 1960, so it grew by less than 3⅓ times in the same period. Even now, the total fertility rate is a high 4.0 in Ghana but significantly higher at 4.9 in CIV, with one extra birth per woman. While just 8% of married women of childbearing age use modern contraceptives in CIV, 17% do in Ghana—still a small fraction but more than twice the incidence of CIV (the gap remains, at 24% to 13%, when considering both traditional and modern methods). High birth rates generally hinder economic development. Faster population growth is associated with slower per capita income growth and slower improvement in other development indicators; lower fertility increases family incentives and resources for education. But the geographic distribution of population does not seem to have particularly strong political implications. For example, Jeffrey Herbst classifies both Ghana and CIV as among just 7 of 40 sub-Saharan African countries with a "neutral political geography."

Extreme Inequality As explained in Chapter 5 (and introduced in Chapter 2), extreme inequality can retard the development process. The World Bank estimates that in 1987, the Gini was .354 in Ghana and .404 in CIV. By 2002, the Gini in CIV was estimated at .484, a substantial rise, and .408 in Ghana, a significant though more modest rise. As

[†]For example, according to the 1997 basic Easterly-Levine (ELF) measure, CIV was rated 0.86 and Ghana 0.71, with the range in Africa from a low of 0.04 for Burundi to 0.9 for Congo and Uganda. On the widely cited 2003 Alesina et al. alternative measure, CIV is 0.82 and Ghana 0.67 in a range from 0. to 0.93. These are the usual baseline measures used by development economists, but the one measure of the seven points in the other direction: the 1999 measure of Fearon, on which CIV is 0.78 and Ghana 0.85.

Frances Stewart wrote, inequalities—economic, social, and political—can make nations vulnerable to severe conflict when they coincide with ethnic or "cultural" differences, in which case "culture could become a powerful mobilizing agent that can lead to a range of political disturbances" (see Chapter 14). Arnim Langer points out that the combination of relatively high and rising inequality in CIV coupled with rising ethnic tensions (that political actors had deliberately made worse) led to the conflict that broke out there in the early 2000s.

Common Law versus Civil Law? As a former British colony, Ghana's legal system is based on common law, while the legal system in Côte d'Ivoire is based on French civil law. Since the late 1990s, the view that common law legal systems provide a better foundation than civil law systems for the development of the financial system has been very influential. Authors in this literature such as Rafael La Porta and his colleagues argue either that common law better protects property rights, better enforces contracts, offers more predictability, or that it is better able to adapt to changes in economic conditions. Investment is generally necessary for economic growth (Chapters 3 and 4), and the development of an effective financial system encourages investment (Chapter 15). Some evidence supports the prediction that civil law countries will experience less financial development and lower rates of investment. But differences between French and British institutions besides the legal system may be important.

French versus British Rule? The British Empire is commonly considered to have preferred indirect rule, relying on its ability to dominate local traditional political systems rather than to create new ones (possibly related to common law tradition). In contrast, the French are said to have tended to employ direct rule of their colonies, introducing their own centralized administrative structures, perhaps related to their own legal and historical traditions. Tactics might well have been similar regardless of the colonizer if conditions strongly favored central rule or indirect rule. But where starting conditions were similar in both colonies and when local advantages of either centralization or decentralization are not strong, a centralized French strategy and a decentralized British strategy may plausibly be expected.

The evidence does reflect a more decentralized rule in British Ghana and more centralized rule in French Côte d'Ivoire. But if centralized rule is then transmitted to the postcolonial regime, the result can be a state with too few checks and balances. Decentralized rule, in contrast, provides better incentives and checks against large-scale government corruption (see Chapter 11). The postcolonial record is complex but shows continued strong tendencies toward centralization in CIV, although the aftermath of civil strife increases uncertainty about the future course (indeed there is some risk that CIV may face a prolonged period as a failed state). As Catherine Boone notes in her richly detailed study of both countries, the case of Ghana is subtle with initial but far from fully successful postcolonial government attempts at more centralization, probably in part to wrest a larger share of agricultural revenues, but in 1992 there was a reinstatement of at least a ceremonial role—and unofficially a much larger role—for chiefs and other traditional village governance. This built on long traditions that were not systematically undermined under the British the way they were under the French.

Education Some scholars consider education of central importance in explaining economic growth; Edward Glaeser and coauthors even argue that improved education can result in improved institutions. Educational attainment was abysmal in both nations at the time of independence. One of the most striking postcolonial differences between the countries is the higher level of educational attainment in Ghana, where there have been greater investments in education. In early years after independence there was strong policy attention to providing basic education in some of the poorer areas in Ghana. In 2010, according to UNDP statistics the mean years of schooling was more than twice as high in Ghana (at 7.1), than in CIV (at 3.3). Education is intrinsically valuable as reflected in the HDI; it has apparently been a factor in faster growth and may even figure in later institutional improvements. Ghana has also had recent success scaling up basic health insurance.

Development Policies

Policies in Ghana Both nations started as (and still are) largely agrarian economies, with over half of the labor force working in rural areas. But the two countries have had somewhat different policy trajectories. The general scholarly view is that in the first quarter century after independence, Ghana chose many poorly conceived and often corrupt interventionist policies. Early policies have been described as oriented toward urban industry, with import substitution to replace manufactured imports with locally produced ones (see Chapter 12). One policy associated with the early rule of Kwame Nkrumah through 1966 was an emphasis on basic education, which may have left an enduring legacy through difficult subsequent swings. After disastrous policies and extreme instability including coups in the mid-1960s to early 1980s, Ghana underwent a policy transformation to become a favorite country of liberalization promoters in the World Bank and elsewhere in the 1980s. A reason given for large-scale reform in Ghana (and in explaining other countries as well) is that things got so bad that there became no choice but to embrace reform; naturally, when according to local conditions things become so bad that continued resistance to change is futile, *something* changes—perhaps not always for the better. Ghana became a classic example for proponents of the controversial view that duress "causes" reform. A criticism, to paraphrase Dani Rodrik, is that it is not clear how much duress is enough to "cause" reform; and as a result, it is not very convincing when analysts simply claim that a reform did not happen because the situation must not have been bad enough. By the early 1990s, World Bank analysts such as Ishrat Husain were pointing to Ghana as a country that had been doing a better job at following and implementing more of its recommended market-friendly policies than countries such as Côte d'Ivoire.

The development process is complex and rarely proceeds linearly. In Ghana, there was relative deterioration from independence until the early 1980s; much of its economic growth took place from the mid 1980s to the present. For example, cocoa had long been an important part of Ghana's economy, but it went into decline when state marketing boards (described in Chapter 9) limited the price farmers received for cocoa, so as to subsidize industrialization. After farmers were allowed to receive a much higher price, and technical assistance was offered, output greatly increased particularly in two spurts in the late 1980s and early 2000s. Fertilizer use and improved varieties have diffused among farmers (diffusion in Ghana for the case of pineapples is examined in Findings Box 9.1 in Chapter 9). Cocoa growing now provides a basic livelihood for over 700,000 farmers in Ghana.

In contrast, CIV experienced relatively faster growth in the 1960s and 1970s and then decline from 1980 to present (recently more pronounced due to civil conflict). Institutions that appear to perform serviceably for two decades can have underlying weaknesses that later emerge—for example politicians treat weaknesses as a political opportunity or the system proves to have too little flexibility as new challenges emerge.

Policies in Côte d'Ivoire CIV, in contrast, is widely viewed as having started down a more market-based, export-oriented path in a way that should have helped the rural agricultural sector, where most of the population and most people living in poverty were located. But this did not prevent elites from extracting what they could from the rural areas. In fact, there were a number of policy lurches. An apparently favorable tactic may have been an early policy of effectively trying to keep all the ethnic groups engaged in and benefiting from growth in the national economy. There were large migrations into CIV, for example, including the forced labor brought into CIV from Burkina Faso (Upper Volta) by the French in the early 1940s. A more ethnically based politics in the late 1990s is viewed by specialists in the politics of CIV as helping precipitate the disaster of regional and ethnic conflict in the 2000s. Besides colonial rule having strongly negative effects, close Côte d'Ivoire dependence on one nation (France) may have been a hindrance to its growth and economic and political development over the long run. For Ghana, diversification of foreign relationships is one of the candidates for explaining its relative success.

Enduring Questions By 1990, Ghana was already being deemed a "success story" by the World Bank and others. Is it because the nation followed the right policies? But even if so, what explains why Ghana chose good policies and CIV did not? CIV fell into a period of severe conflict in 2002–2007; many lives were lost, and resources continue to be diverted into managing the problems, with perceptions of prospects still damaged. French military involvement reflected France's ongoing unique relationship with CIV. In contrast, Ghana has so far remained stable. Why? And can it continue to remain stable? It remains to be seen how well Ghana comes through its recent discovery and production of oil. In principle, new resources can help reduce poverty, directly and indirectly. But for many countries, a "resource curse" has resulted from political conflict over resource revenues, and an overspecialized or even "hollowed out" economy (see Chapter 14).

Business scholars emphasize company leadership. Have leadership differences mattered for development of these countries? Socialist Kwame Nkrumah constructively supported education but diverted resources from cocoa exports to local industry, leading to economic disaster; under duress, socialist Jerry Rawlings embraced market-oriented policy reforms that led to short-term pain but long-term gain. Subsequent leaders have been pragmatic and at least done relatively little harm and perhaps some good. CIV's capitalist President Felix Houphouet-Boigny, backed by France ("Françafrique"), seemed early on to be leading his country to economic success but stole billions from the public purse and led the country to ruin while clinging to power for 33 years until his death in 1993. Subsequent leadership has impressed few observers. Of course extraordinary leadership in government or of civil society can play a decisive role in the course of development—think of Nelson Mandela in South Africa, or Muhammad Yunus in Bangladesh. But in ordinary experience, is leadership the key, or is it underlying institutions? Or popular movements? Education? Imported ideas and technology? These remain enduring questions, and answers may depend on local circumstances.

As an examination of just two countries to illustrate more general evidence in the literature, it cannot be concluded beyond doubt that institutions set up by Britain in Ghana and France in Côte d'Ivoire had a dominant effect on the successes and failures of these nations in subsequent poverty reduction and economic growth. But there is support for factors identified in the large-sample statistical studies introduced in Chapter 2, notably institutions, inequality, and at least indirectly education. Colonial institutions apparently had negative effects, and within colonization the degree of decentralization under colonial rule apparently also mattered. The reemergence of more decentralized governance in Ghana since 1992 may be related to less damaging British governance practices in this respect. At the same time, history was not destiny; Ghana has made progress not well predicted by instruments for colonial institutions. Nor are things necessarily bleak for CIV. Institutions and inequality are highly resistant to change. But the global trend is toward continued progress on human development, and other African nations such as Rwanda have made enormous economic strides that were very difficult to imagine just a few years earlier. Meanwhile, the standoff following contaminated presidential elections in 2010 confirmed that institutions remained weak in CIV. The optimistic reading was that this time the international community could play a constructive role in facilitating improvements in the underlying institutions.

Sources

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