

# **Shifts in Production and employment under SAP: Ghana as a Case Study**

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# Introduction

- SAP involves the use of
  - monetary instruments
  - in a private sector-led liberalized economic framework
  - to achieve desirable economic outcome
- Economic downturn in Africa at the time necessitated the introduction of SAP in Africa particularly in the early 1980s.
- E.g. at the of the introduction of ERP/SAP in Ghana,
  - Growth was negative
  - Inflation
  - BoP was in deficit
  - However, unemployment was low at 2.8% with high informality

# Introduction

- These were blamed on
  - External shocks
  - Drought
  - Domestic economic mismanagement (control regime & state-led economic activity) manifested in
    - High fiscal deficit
    - Non-availability of foreign exchange to procure inputs
    - Scarcity of essential goods
- For ERP/SAP, stability as necessary condition for long term growth
- It involves
  - Exchange rate liberalization
  - Fiscal management that involves (tax reforms and expenditure control measures)
  - Privatization of SOEs
  - Trade liberalization
  - Deregulation of domestic prices

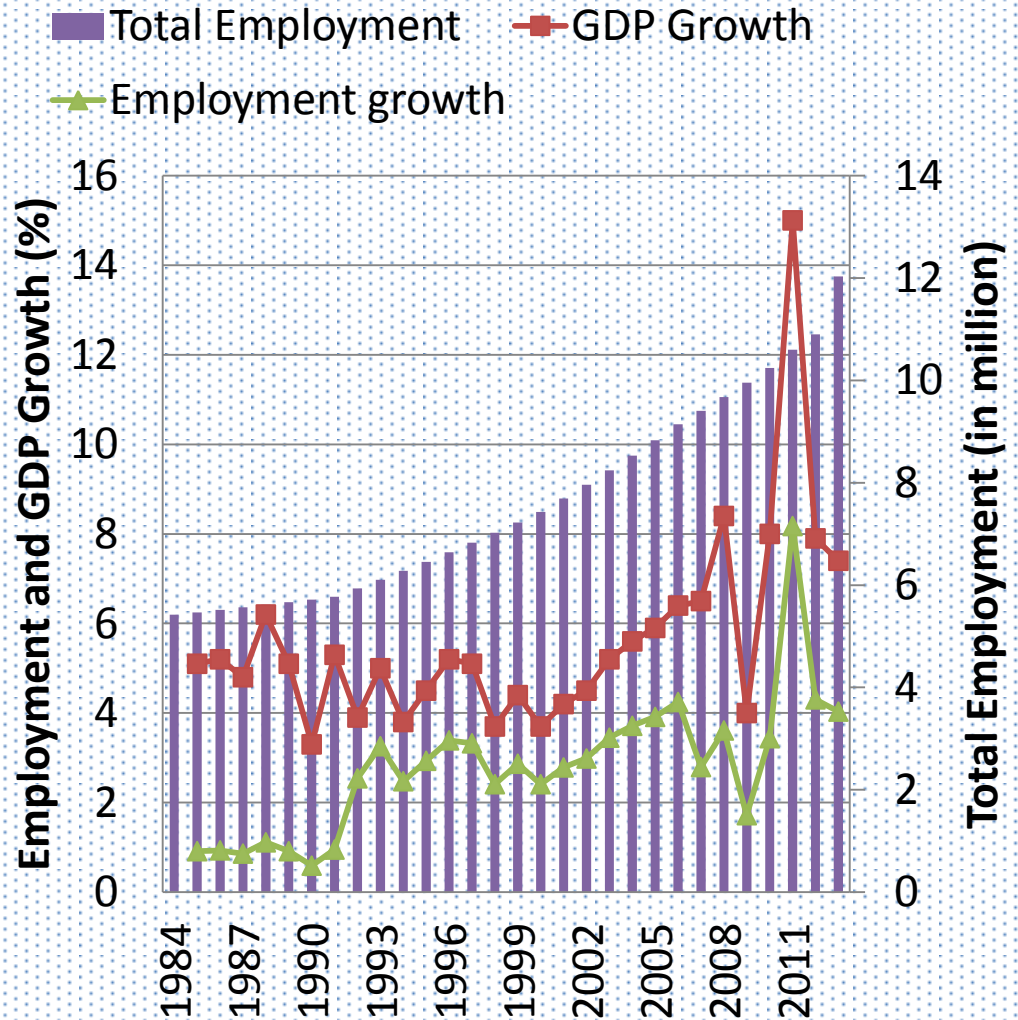
# SAP on output and employment

- SAP effects are of two-fold
  - aggregate output and employment
  - Composition of output and employment
- This depends on the timeframe
  - Short- medium and long-term
- Effect of output on employment depends on
  - Shifts in wage-rental ratio
  - Substitution possibilities (skilled labor for unskilled or capital for labor) leading to employment fall
- Effect of composition of output on employment depends on flexibility in the labor market

# Aggregate Output and Employment

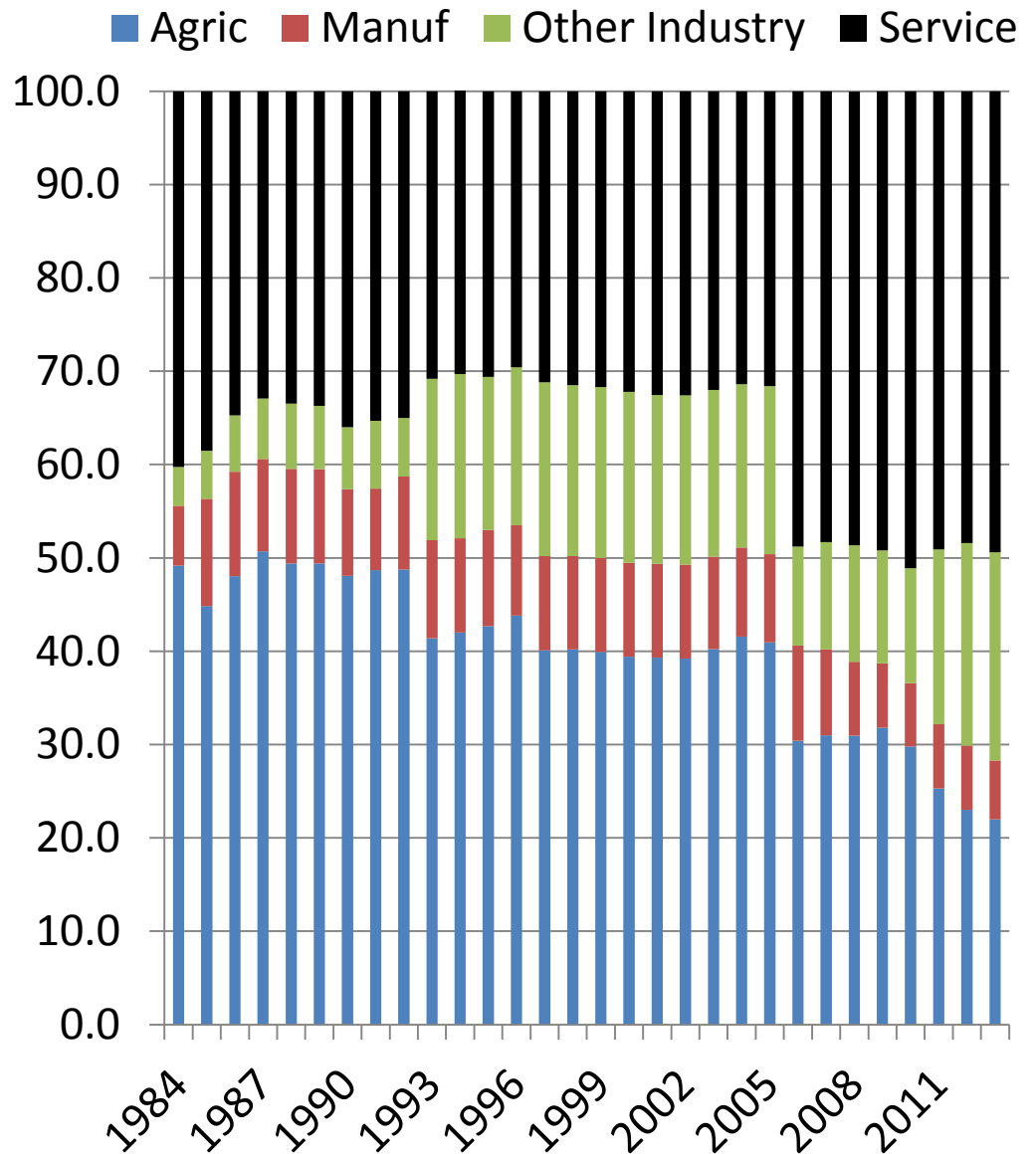
- Faster output growth than employment
- Reflected in wider employment-GDP growth trend
- Particularly in the first 6-7 years

## Pattern of Employment and GDP Growth



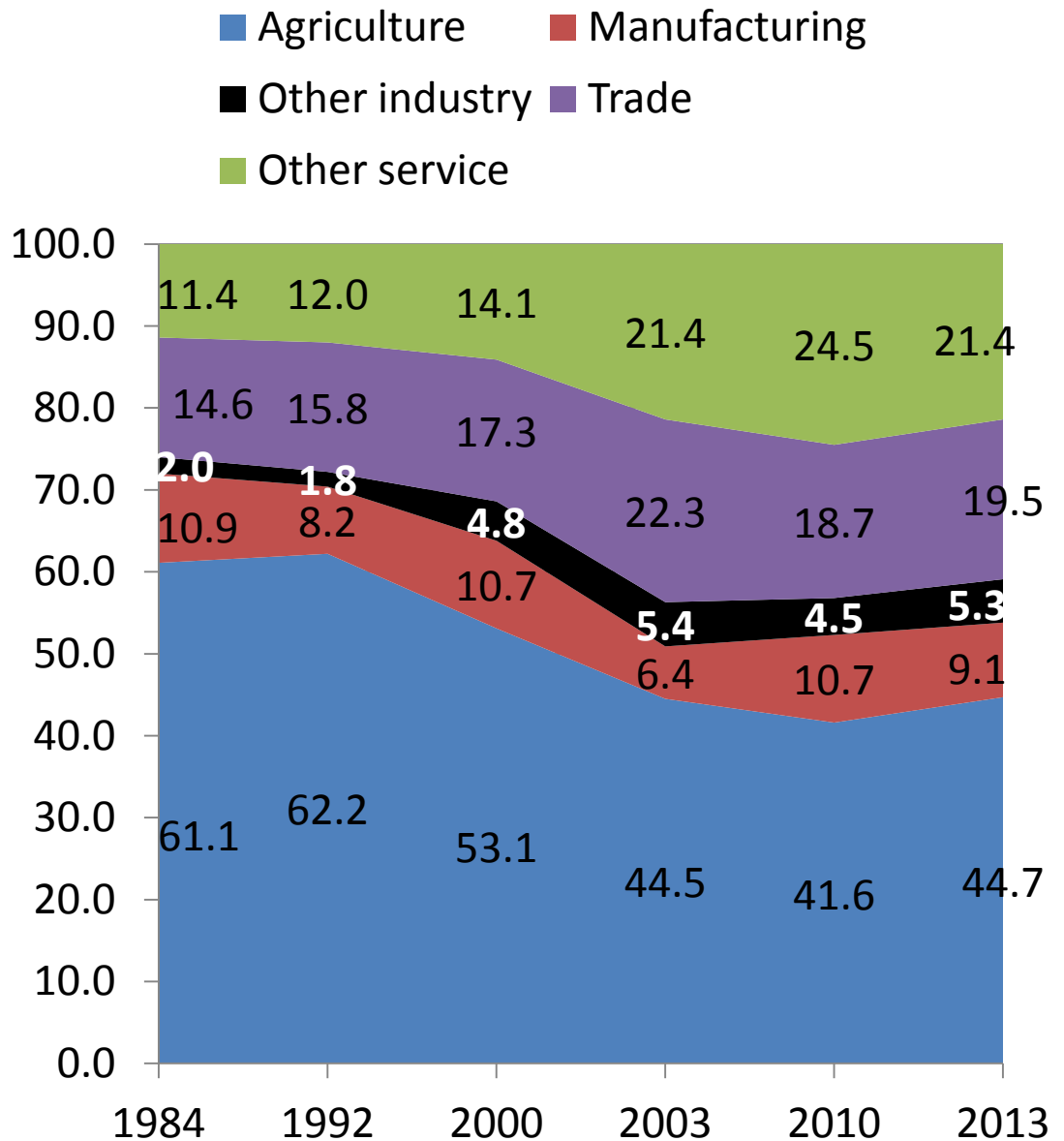
# Shifts in Sectoral composition of GDP

- The short-run shift was quite minimal at least in the first 6-7 years (1984-90)
  - 49.2-48.1% - agric
  - 6.4-9.3% - Manuf
  - 4.2-6.7% - oth. Ind
  - 40.3-36% - service
- In the long-run
  - Agric 22% in 2013
  - Manuf 6.3%
  - Oth ind 22.3%
  - Service 49.4%



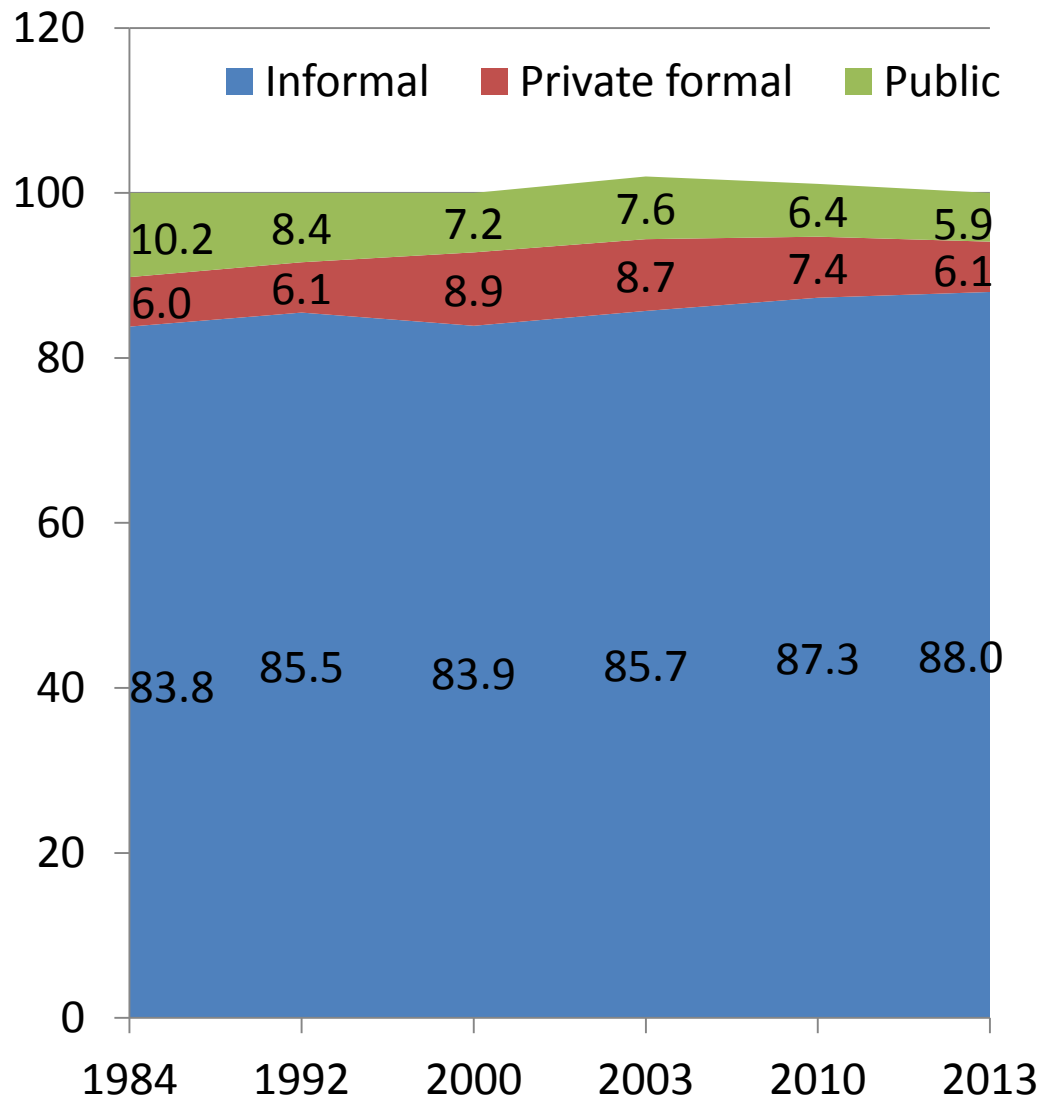
# Shifts in employment composition by economic sector

- In the long run agric loses to service
  - Trade is a major driver of service jobs
  - Manufacturing has virtually remained unchanged
- In the short run,
  - agric & service jobs increased
  - Manufacturing & other ind. dropped
- Due largely to privatization of SOEs



## Shifts in employment by institutional sector

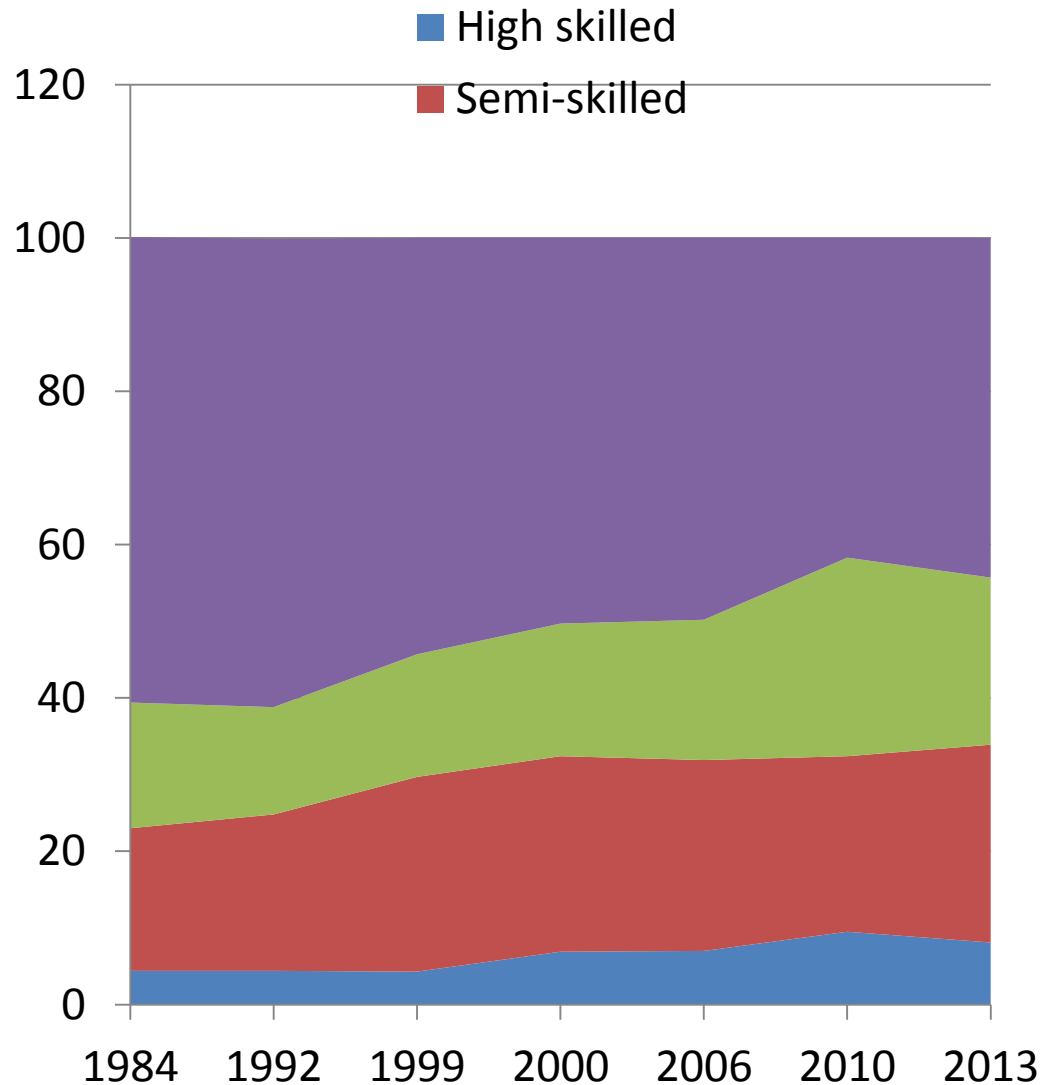
- In the short-run public sector decline in favor of private (largely informal)
  - 49,873 (15% of public sector workers) over 1987-91 redeployed
  - Loss of jobs in divested SOEs
- The desired long-run effect of increased private formal sector eluded
- Increasing informality, declined public sector employment and stagnant private formal sector employment





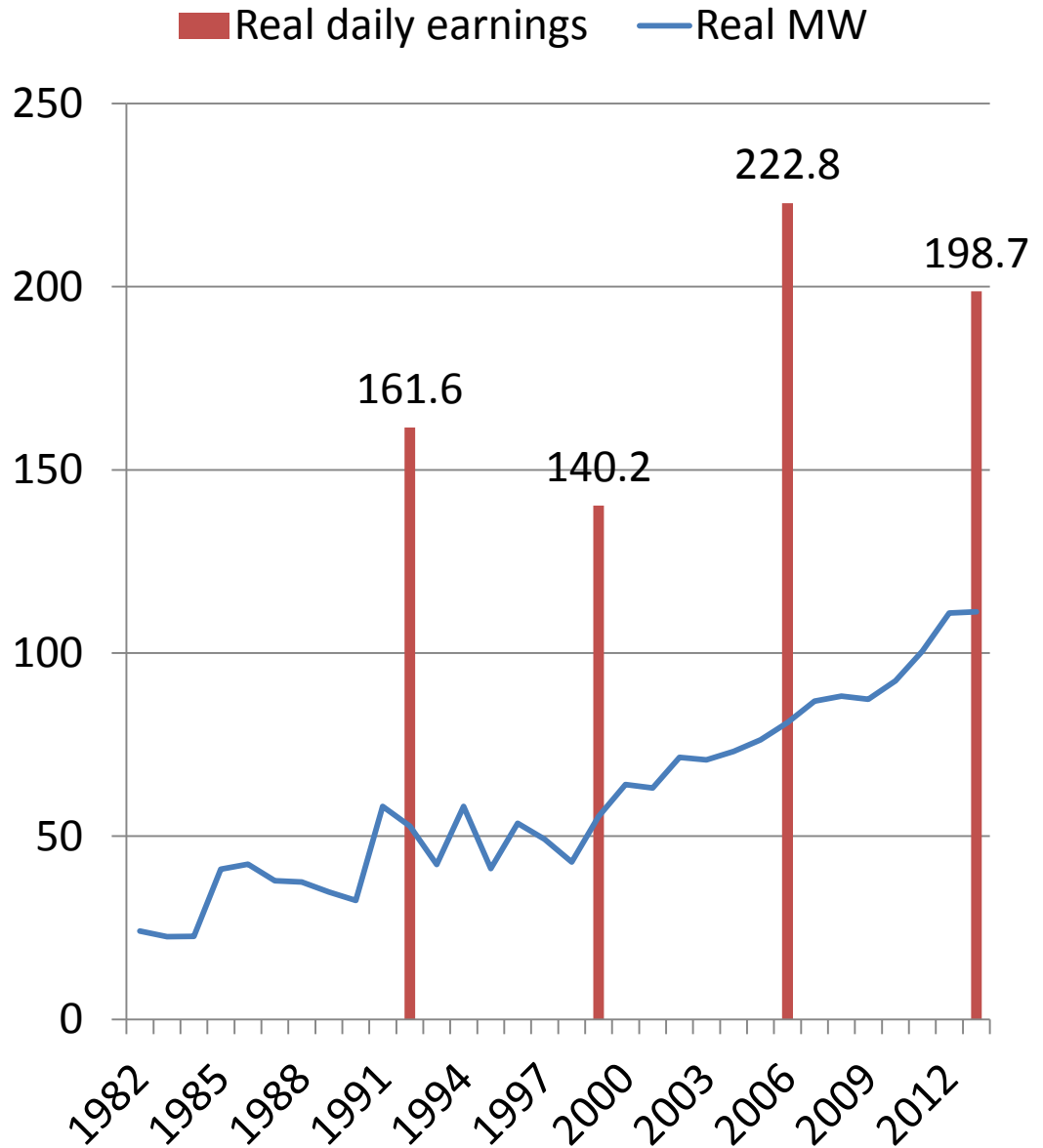
# Shift in employment by skills

- short-run shift in employment by occupation is very minimal
  - since it has skills implication
- In the long-run,
  - high and semi-skilled occupation improves
  - Production occupations (craft, P&M) also increases
  - Low skilled occupation (mainly agriculture) falls



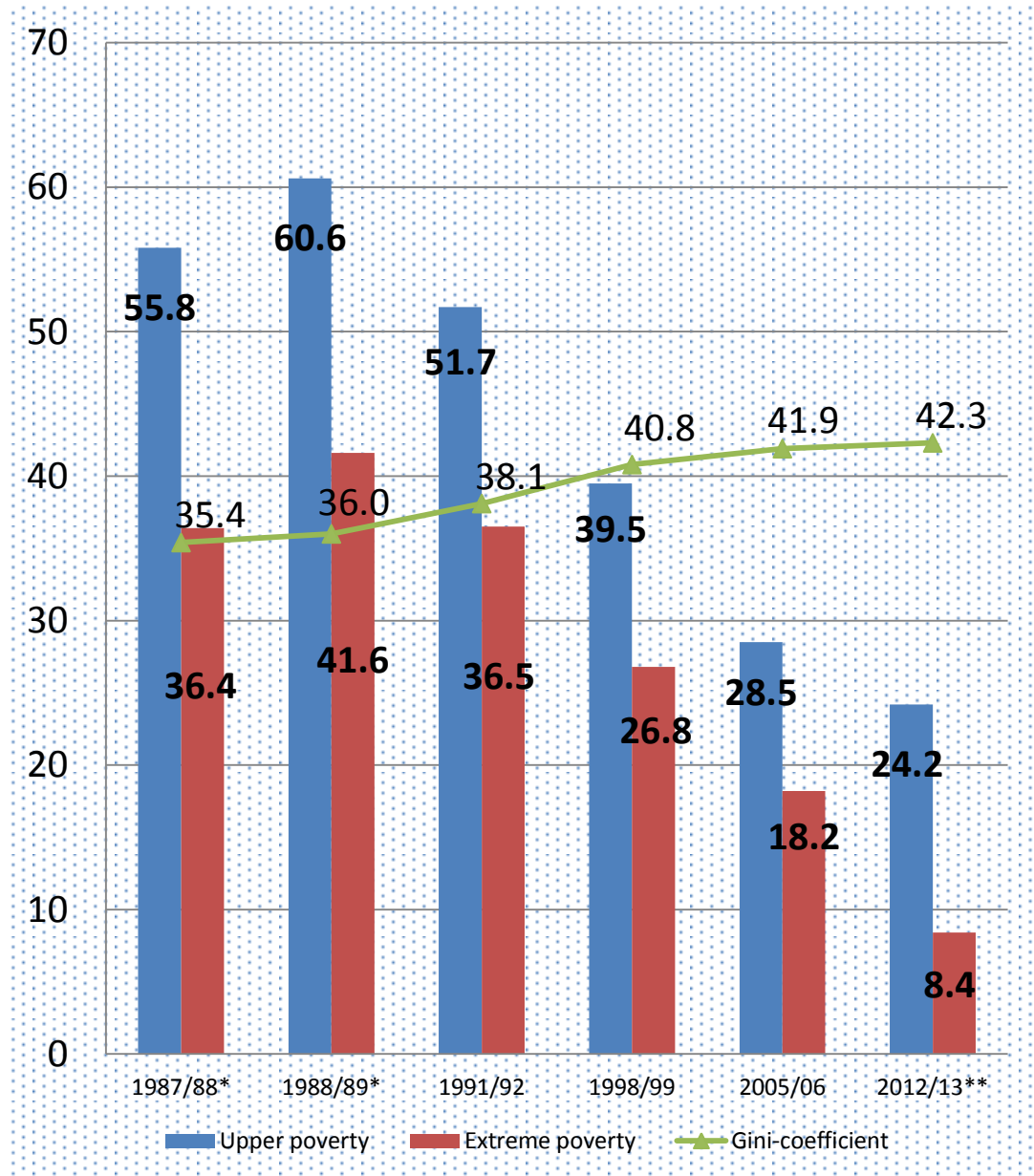
# Minimum Wage and Average Earnings

- Real minimum wage has increased consistently with
  - few in the formal sector benefiting
- Average real basic daily earnings have been erratic in the short-run
  - but improved in the long run
- Higher earnings in high skilled occupation and declines with skilled occupation
  - creating inequality



# Poverty and Inequality

- Poverty increases in the short run
- In the long-run
  - poverty declines but
  - depth of poverty becomes a problem (declines only from 36% to 32% over 1991-2013)
- Inequality widens in the long-run



# Conclusion

- Employment growth lags behind GDP growth because of overemphasis on growth rather than source
- Sectoral shift in employment mirrors shift in sectoral output composition in the long run
- Shift from agriculture jobs to service with manufacturing remaining stagnant hence no room for transformation
- Loss of public sector jobs in favor of informal with suffocating private formal sector growth and job creation
- increasing but slow growth in high and semi-skilled jobs due

# Conclusion

- Rising poverty incidence in the short and later declines with appropriate intervention
- Depth of poverty however tends to be a challenge with many people living away from the poverty line
- Inequality deepens in the long run
- Thus, implementation of SAP must take countries peculiarities into consideration

**Thank you for your attention**