EDITORIAL

# COMING OUT OF THE WOODS

Since 2013, Ghana has been in the woods and on the high seas with regard to its economy. The nation's indexes of major economic indicators have significantly deteriorated and have been very disturbingly poor. Much of the blame has been put on Ghana's energy and power sectors. As a result of neglect and lack of proper long-term energy and power planning, the nation now has to pay dearly with the resultant "dumsor" and attendant economic problems that are currently adversely affecting all sectors and segments of the economy. The resulting prolonged and deep decline in Ghana's economic performance is well known to all in the country. The nation's annual budget for the last three years had to be revised a number of times. In effect, the country is going through what may be referred to, at best, as economic recession and, most appropriately, as economic depression. This, in reality, represents the downside of our national economic or business cycle.

The current poor economic performance of the nation has adversely affected the nation more than the earlier global economic and financial crisis - the credit crunch of 2007. Ghana came out of that global financial crisis relatively unscathed. To some extent, either we seemed not to have been part of the world or have not been integrated into the global economy. The effects of the "dumsor" however are clearly reflecting the fact that our basic economic problems or business cycle are more home-grown than imported. Our economic relevance in the world is undeniably insignificant. Our business cycle and its causes are essentially undefined and unknown. Indeed, Ghana behaves as if it is not subject to the normal economic or business cycles that even the best economies are exposed to.

Although there is no one agreed universal official definition of the term economic recession or depression, there is a general recognition that the term refers to a period of significant decline in economic activity. When short periods of economic declines become frequent, the situation ceases to be referred to as recession. Most economic commentators and analysts use, as a practical definition of recession, two consecutive quarters of decline in a country's real (inflation-adjusted) gross domestic product (real GDP) - the value of all goods and services a country produces adjusted for inflation. Although this definition is a useful rule of thumb, it has its drawbacks. A focus on GDP alone is too narrow, and it is often better to consider a wider set of measures of economic activity to determine whether a country is indeed suffering economic recession or depression. Thus, using other indicators in addition to the GDP can provide a much timely gauge of the state of an economy.

After nearly a year of falling commodity prices, rising unemployment, increasing personal and corporate bankruptcies and failures, falling stock prices, and declining public confidence, people who lost their jobs and the greater number of investors who experienced substantial losses in the stock market now know what recession is - beyond official definitions. Although many economists use declines in gross domestic product to define a recession, others use employment, industrial production, manufacturing production, trade sales, personal income, and so on. The immediate short-term consequences of economic recession and depression typically include increased unemployment, decreased consumer, business and public spending, loss of consumer confidence, and declining stock prices and profits.

As a matter of fact, most developed free-market economies of the world use a broader definition and consider a number of measures of economic activity to determine the dates of recessions. In the USA, the Business Cycle Dating Committee defines a recession as "... a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough." Consistent with this definition, the Committee focuses on a comprehensive set of measures including not only GDP, but also employment, income, sales, and industrial production to analyze the trends in economic activity and determine appropriate corrective fiscal and monetary measures that need to be taken.

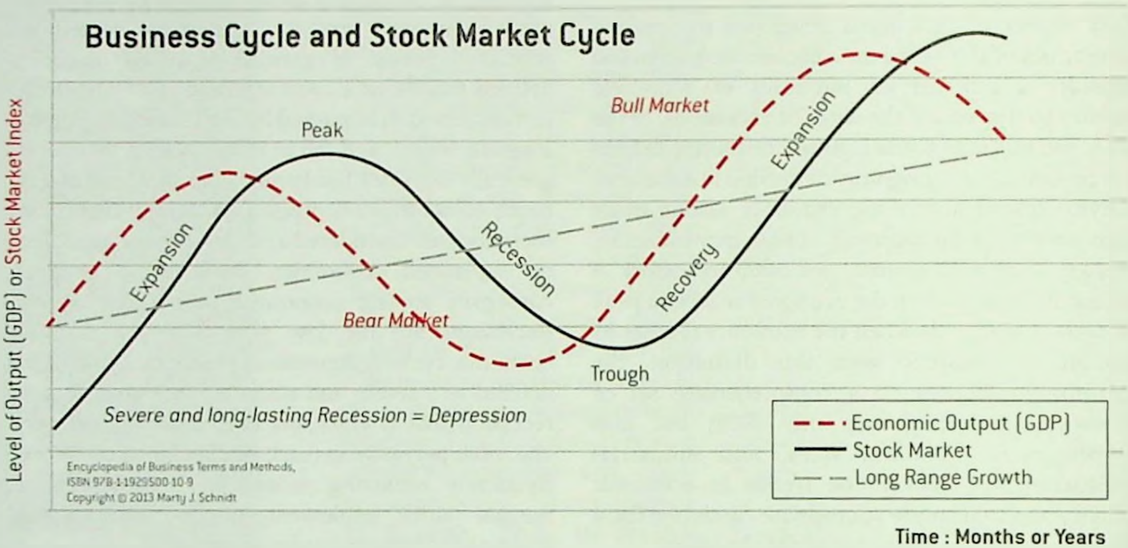
The term business cycle refers to economy-wide fluctuations in employment, production, trade, and general economic activity. Many people in Ghana are at a loss as to whether the country's current economic problems qualify as recession or depression. An economic recession implies a slowdown in economic activity characterized by less consumer spending and, often, also by higher unemployment rates. Generally accepted indicators of a nation's economic recession in the developed nations or economies are usually a decline of gross domestic product for at least two consecutive quarters and a sudden increase in the relevant measure of unemployment. However, since it takes a significant time to compile and verify these economic data, a recession may be well underway or even over before certain government agencies officially realise and declare it. The leading, lagging, and co-incidental indicators of economic activities and of recession or depression are often nation-specific.

Economic recessions and depressions are theoretically different. In essence, an economic recession is an extended period of decline in general business activity. An economic depression, on the other hand, involves a much longer period of more pronounced or drastic decline in a national or international economy. In the advanced countries, this is typically reflected by at least three consecutive quarters of falling real gross national product and gross domestic product. Economic recession reflects a period of general economic decline, defined usually as a contraction in the GDP for a certain period. It is marked by high unemployment, stagnant wages, and fall in retail sales. A recession generally does not last longer than one year and is much milder than a depression. Although economic recessions are considered a normal part of capitalist or unplanned economies, there is no general consensus among economists about its causes. Recessions are the low points of the normal economic cycle. A depression, on the other hand, is defined as a severe and sustained recession. It is a recession that is unusually longer lasting, severer, and more pervasive in reach or effect than the more frequently occurring recessions. Recession is a normal (albeit unpleasant) part of the normal business or economic cycle of a nation.

During recession, demand and economic activities are normally stimulated by the government and industry. Under sound macroeconomic policies, taxes and interest rates usually fall to stimulate the economy – prop up general demand - by offering cheap rates at which to borrow money. A nation's "Index of Leading Economic Indicators" provides the signs of economic decline and hence potential recession or potential depression. Globally, records of the predictive ability of many nations of correctly anticipating and predicting - hence preparing for recessions - are at best questionable.

Recession and depression are associated with and are integral parts of a nation's business or economic cycle. This term is used in several ways in business or economics. The first and primary meaning of business cycle refers to fluctuations in economic output in a country or countries, characterized by well-known phases of peaks, troughs, recession, depression, recovery, and expansion. The business cycle or economic cycle in this sense may be accompanied by changes in stock market prices, known as the stock market cycle. The second meaning of business cycle sometimes refers to stages in the life span of a single company. In this regard, important phases in a company's life may include: birth (or start up), growth, maturity, decline, and demise. Progress through these cycles may be impacted heavily by the economic or business cycle. The third meaning of business cycle also refers to phases in the life of an on-going business entity covering a year or several years.

The most familiar use of the terms business cycle or economic cycle refers to changes in economic activity within a country or countries. The figure below (by the Encyclopedia of Business Terms and Methods, 2013) of business cycle and stock market cycle shows how the different phases of the business cycle correspond to increases or decreases in GDP. It depicts recession or depression and expansion.




Overtime, the GDP of most countries tends to grow, as suggested by the "Long Range Growth" line in the figure. The long range growth curve may be considered a baseline, around which economic output may fluctuate as the economy enters different phases of the business cycle. Stock market prices (the Stock Market Cycle) tend to rise or fall in anticipation of changes in the economy (GDP). In reality, the "cycle" tends to be less predictable, less regular, and less smooth than the figure above suggests. In addition, the length, severity, and sequence of the various phases in many nations may differ from what is shown in the figure.

The business or economic cycle is definitely different from "seasonality" or "seasonal fluctuations" in business or in an economy. Seasonal fluctuations tend to impact some businesses and industries more than others and they are tied predictably to calendar seasons or to short-lived events. By contrast, the business or economic cycle has broad impacts across companies, industries, and calendar seasons. While the business cycle is defined and measured primarily in terms of national GDP, progress through its phases is felt most keenly by individuals and businesses in terms of changes in employment or unemployment, wholesale sales and retail sales; new building loans and new building starts, or building closures and property foreclosures; business startups and business growth, or business failures.

During recessions and depressions governments and private industry alike are keenly motivated to act on measures that might move the economy back into recovery and expansion. Any attempt to remedy an economic downturn, however, has to start with an accurate understanding and assessment of the underlying cause and the relevant factors that would most likely trigger off recovery. This phase is central to the field of macroeconomics and, not surprisingly, it is a field characterized by competing theories, speculations, and a few established laws or theories dating back to Adam Smith and Keynes.

A number of factors are known to be associated with upturns or downturns in any economy, although the extent to which they are either causes or results is not often well known or agreed by all. These causal factors determine, to a very large extent, the necessary and relevant remedies. These factors include an imbalance in a country's money supply, inflation, and interest rates (monetary policy issue); excessive government spending, especially deficit spending or borrowing; consumer and business confidence - optimism or pessimism - regarding business growth and inflation; large increases or decreases in the price of the essential inputs to production; weak demand for goods and services - the central factor in Keynesian economics. Unlike the classical economists, it is established by the Keynesian view that during recessions and depressions, the government, utilizing monetary (money supply and interest rates) and fiscal policies - government's spending, transfer payments, taxing, and borrowing policies - should act decisively to increase aggregate demand by either increasing the money supply through reduced interest rates and/or increasing government spending, reducing taxes, increasing employment, and increasing purchasing power of the economic agents.

Keynesians believe that during recession or depression, if demand could be increased, output and employment could be expanded and the economy would return to its expansion or full employment potential. During a recession, Keynesians argue, that, rather than balancing its budget, the government should increase its spending, reduce taxes, and shift its budget toward a deficit. According to Keynesians, higher levels of government spending would directly increase total demand. Further, lower taxes would increase the after-tax incomes of households and they would spend most of that additional income, which would also stimulate total demand. Thus, the Keynesian prescription to cure a recession is a larger budget deficit, easing of conditions for corporate borrowing, reduced taxes and the like.

In contrast, if the economy was experiencing a problem with inflation during an economic boom, Keynesian analysis called for restrictive fiscal policy to temper excessive demand. In this case, reductions in government spending, higher taxes, and a shift of the budget toward a surplus would reduce total demand and thereby help to fight an inflationary boom.

Economic recessions are often portrayed as short-term events. However, the consequences of high unemployment, falling incomes and profits, and reduced economic activity can have long-term or lasting consequences on individuals, corporations, and governments. In each case, an economic recession can lead to "scarring" - that is, long-lasting or permanent damage to the economic situations of consumers, corporations, nations, and the broader global economy at large.

As far as Ghana is concerned, it is rather unfortunate that we seem to have decided to play politics with every issue. We refuse to think critically and strategically about common national issues with the interest of Ghana at heart. We have not found a way for the various interested parties to work collaboratively to determine the true causes of national problems and to jointly find lasting solutions to them. We blame long festering problems on the governments in power at the time. Hence, in the process, for political expediency, various Ghanaian governments tend to decide to merely patch up and only put mere bandages on clearly festering cancerous wounds and provide "PARA" for terminal brain cancers!

Political oppositions find solace in mere criticisms without offering any credible and realistic long-term alternatives. They resort to political grandstanding and exploitation of the largely illiterate, gullible, hero-worshiping, and uninformed populace. The citizenry follow blindly without any critical analysis of issues. As a nation, Ghana has refused to think, much more think critically, and use its collective brain to solve our problems. The so called CSOs, much touted but often incompetent, and biased, and the media that seems to be only and largely interested in protecting funding pretend that they are speaking with the voice of the people without any accountability to the same people. Indeed, one often wonders with whose voice they pretend to be speaking.

It is about time we, as a nation and ordinary people, understand that there is a need for collective decisions in the interest of the nation and our future generation, some yet unborn. At the moment, one wonders whether politicians are in business to deceive and merely to serve their own self-interest. It appears that the more they discredit others, the better their chances, or =so they think.

Our successive governments often seem to be at sea and in the woods as to the real causes of our long standing economic problems. Without the faintest idea of the causes, we cannot design relevant cures with pretensions and grand standing. While nations faced with depression and recession significantly reduce interest (to even negative rates) and taxes, we seem to find solace in increasing interest rates and taxes, even in times of depression. We take joy in increasing rates of existing taxes and inventing dubious and crippling new ones – just to raise government revenue. We focus only on lost government revenue in recession and depression in the midst of massive unemployment, underemployment, and massive economic downturn. Malaysia and Singapore that we often point to as models to emulate did not develop with political divisiveness and self-interest at the expense of national interest. We seem to be seriously abusing and hiding behind so called and irresponsible freedom of speech and democracy to wreak havoc on the nation and the most vulnerable. We, the people, including the "veranda boys" and now "kayayoo girls", must wake up and demand accountability, reasoned judgement, substantiation, and critical thinking from all - without any exception whatsoever - in the interest of the nation and the future generations. The nation must come first in all that we do!