

**The Welfare Impact of Government Guaranteed Minimum Prices in
the Maize Sub-Sector in Ghana**

by

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Dedication

To my wife and children, for their support and prayers over the years.

Abstract

Price support in the form of guaranteed minimum price (GMP) and price ceilings have been used in Ghana to increase the production and consumption of maize. With the increasing budgetary burden of the policy combined with the government's adoption of the World Bank/IMF's economic recovery program, the policy was abolished in 1991. The objective of this research was to investigate whether the major participants in the maize industry, namely, farmers, consumers and the government are to benefit or lose under the policy change.

Based on the concept of economic surplus and using a partial equilibrium framework developed by Ahmed (1979), the policy was evaluated. It was found that the policy led to the transfer of income from maize consumers and the government to maize producers. The results emphasise the negative impacts of intervention on production efficiency, employment and possibly income distribution. More importantly, it was noted that the policy resulted in some efficiency losses not only in the maize industry, but also in the entire economy. The results increase the transparency of the costs associated with the policy.

The study supports the contention that, distorted markets reduce market performance and efficiency. The dissertation presents the view that, it may not be socially optimal for Ghana to be self-sufficient in maize production since the long-run costs so incurred are likely to be more than the country's reliance on trade.

Based on the results, various market efficiency-improving policies were considered which can lead to an improvement in productivity among small-scale maize farmers and thus enhance their welfare. Besides, other participants in the industry such as consumers, traders, processors and the government will stand to benefit from the policy change. In the absence of such improvements, the welfare of small-scale maize farmers and poor consumers will continue to be marginalised despite the government's declared commitment to them.

The policy issues demonstrate that trade liberalisation on its own cannot be a substitute for appropriate domestic economic policies, which must be reformed before the gains of trade can be achieved. They suggest that non-price incentives are needed in a complementary policy package in order to derive the benefits from the policy change.

Table of Contents

DEDICATION	II
DECLARATION	III
ABSTRACT	IV
TABLE OF CONTENTS	V
LIST OF TABLES	VI
LIST OF FIGURES	VII
ACKNOWLEDGEMENTS	VIII
1 INTRODUCTORY REMARKS	1
1.1 Introduction	1
1.2 Agriculture in Ghana's Economy	3
1.3 The Maize Sub-Sector	5
1.4 Agricultural Pricing Policies in Ghana	9
1.4.1 Economy-wide policies	9
1.4.2 Sector-specific policies	10
1.5 Objectives and Hypothesis	10
1.6 Rationale for the Study	12
1.7 Scope and Outline of the Study	14

2 PRICE SUPPORT THEORY AND LITERATURE REVIEW	15
2.1 Introduction	15
2.2 Theoretical Analysis of Price Support Programs	15
2.2.1 Introduction	15
2.2.2 Reasons for price support	16
2.2.3 Methods of price support policy	17
2.3.4 Impact and effects of price support policies	18
2.3 Studies on Agricultural Price Support Programs	22
2.4 Selected Country Studies of Price Support Policies	27
2.4.1 Changes in some developing countries	27
2.4.2 Studies on Ghana	28
2.5 Summary and Conclusion	30
3 METHOD OF ANALYSIS	31
3.1 Introduction	31
3.2 Models for Evaluating Output Price Support Policy	31
3.2.1 The "Brannan Plan" (1962)	31
3.2.2 The Dardis (1965) model	33
3.2.3 The Barker and Hayami model (1976)/ The Ahmed model (1979)	35
3.3 Evaluation of the Different Models	37
3.4 Framework for the Present Study	38
3.5 The Model	41
3.5.1 Maize price support monopoly	42
3.5.2 Analytical description of the model	45

4 DEMAND AND SUPPLY ELASTICITIES	47
4.1 Introduction	47
4.2 Theoretical Basis of Demand and Supply Elasticities	47
4.3 The Statistical Model and Results	49
4.4 Observations on the Model and Method Used	51
4.5 Comparison of Elasticities with Those of Other Studies	53
4.6 Conclusion	54
5 EVALUATION OF POLICY	55
5.1 Introduction	55
5.2 Data and Parameters	55
5.2.1 Data	55
5.2.2 Required increase in the production of maize to achieve self-sufficiency	56
5.2.3 Household consumption of maize	56
5.2.4 Price elasticity of maize demand	58
5.2.5 Price elasticity of maize supply	58
5.2.6 Price elasticity of home consumption of maize	58
5.2.7 Domestic producer price of maize	59
5.2.8 Government-announced ceiling price of maize	59
5.2.9 Government-announced support price of maize	60
5.2.10 International price of maize	60
5.2.11 Premium on foreign exchange savings	61
5.3 Results	62
5.3.1 Net producer benefits	64

5.3.2 Net consumer benefits	65
5.3.3 Net government cost	66
5.3.4 Net savings in foreign exchange	67
5.3.5 Net social benefits	67
5.4 Costs and Benefits of the GMP Policy	68
5.4.1 Costs	68
5.4.2 Benefits	68
5.4.3 Ratio of benefits to government costs	69
5.4.4 Conclusion	69
5.5 Discussion of Results: An Empirical Approach	70
5.6 Sensitivity Analysis	72
6 POLICY IMPLICATIONS	78
6.1 Introduction	78
6.2 Implications for the International Financiers (Donor Agencies)	79
6.3 Implications for the Government: Food Marketing	80
6.4 Implications for the Government: Food Security	84
6.5 Implications for the Government: Stability	87
6.6 Other Considerations Related to the ERP	87
6.7 Implications for the Maize Farmer	89
6.8 Implications for the Maize Consumer and Processor	92
6.9 Implications for the Private Sector	93

	ix
6.10 Concluding Remarks	95
7 SUMMARY AND CONCLUSION	96
7.1 Introduction	96
7.2 Summary of Evaluation	96
7.3 Contributions of the Study	96
7.4 Limitations of the Study	97
7.5 Areas for Further Research	98
APPENDIX	99
REFERENCES	107

List of Tables

Table 1.1: Changes in some key economic indicators under the ERP, 1980-87	3
Table 1.2: The importance of agriculture in the Ghanaian economy	4
Table 1.2: The importance of agriculture in the Ghanaian economy	5
Table 1.3: Estimated annual inter-regional flows of maize	8
Table 4.1: Price elasticity of demand and supply of food grains in some developing countries	54
Table 5.1: Ghana population, maize production and imports: 1974 - 1991	57
Table 5.2: Costs and benefits of GMP policy	62
Table 5.3: Costs and benefits of GMP policy	74
Table 5.4: Costs and benefits of GMP policy	75
Table 5.5: Costs and benefits of GMP policy	76
Table 5.6: Costs and benefits of GMP policy	77
Table 6.1: Real prices of maize in Ghana at 1980 prices, 1980 - 1986.	91
Table 6.2: Public expenditure on agriculture (%), Ghana, 1979-1990	91

List of Figures

Figure 1.1: Map of Ghana showing major maize-growing regions	6
Figure 1.2: National maize production	7
Figure 3.2.1: The Brannan Plan	32
Figure 3.2.2: Dardis model	34
Figure 3.2.3: Model of price support	36
Figure 3.5a: Dissaggregated maize market	43
Figure 3.5b: Combined private and government sectors	44

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