



**NAME OF STUDENT: CHARLES KWADWO OPPONG**

**TOPIC: THE IMPACT OF FISCAL DISCIPLINE ON JOB CREATION**

**SUPERVISOR: DR ISHMAEL ACKAH**

**THIS THESIS IS SUBMITTED IN PARTIAL FULFILMENT FOR THE AWARD OF THE DOCTOR OF PHILOSOPHY (PhD) IN BUSINESS ADMINISTRATION FROM THE NOBEL INTERNATIONAL BUSINESS SCHOOL/GHANA INSTITUTE OF MANAGEMENT AND PUBLIC ADMINISTRATION**

**AUGUST, 2021**

## **ACKNOWLEDGEMENTS**

The completion of this doctoral study has been a long journey full of wonderful and overwhelming experiences. I would like to thank my supervisor, Dr. Ishmael Ackah for his guidance throughout my studies and research. I thank him for his encouragement and tolerance, especially in times of difficulties. His inspiration, enthusiasm and great efforts in explaining econometrics to me in a clear and simple manner made the study a bit more interesting.

I am also pleased to acknowledge the Committee Members for their valuable comments and discussions. My special thanks go to Dr. Hod Anyigba, The Director of PhD Programmes for the suggestions and pieces of advice he offered me in the course of writing this thesis.

I owe a huge gratitude to my dear my wife, Juliana Oppong for her patience and tolerance.

Finally, I would like to thank my children, Emmanuel, Emmanuella and Jessica for their encouragement.

## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENTS</b> .....	2
<b>DECLARATION</b> .....	<b>Error! Bookmark not defined.</b>
<b>ABSTRACT</b> .....	9
<b>CHAPTER 1: INTRODUCTION</b> .....	11
1.1 Overview.....	11
1.2 Background to the Study.....	11
1.2 Problem Statement.....	8
1.3 Research Questions.....	29
1.4 Research Objectives.....	29
1.5 Significance of the Study.....	30
1.6 Contribution to Theory.....	31
1.7 Scope and Limitations of the Study .....	32
1.8 Definition of Key Terms .....	34
1.9 Organization of Dissertation .....	34
<b>CHAPTER TWO</b> .....	36
<b>LITERATURE REVIEW</b> .....	36
2.1 Introduction.....	36
2.2 Theoretical Orientation and Conceptual Framework.....	37
2.2.1 Dependency Theory.....	39
2.2.2 The Foundations and Principles Underpinning the Dependency Theory.....	42
2.2.3 Structural School of Thought.....	43
2.2.4 The Neoliberal School of Thought.....	44
2.2.5 Interdependence School of Thought.....	45
2.2.6 Application of Dependency Theory.....	45
2.2.7 Criticism of the Dependency Theory.....	47
2.3 Theoretical Arguments underlying Dependency Theory and its impact on Fiscal Discipline and Job Creation .....	47
2.4 The Relevance of the Dependency Theory to Ghana.....	49
2.5 The Theory of Fiscal Rules.....	49
2.6 Theoretical Arguments for Fiscal Rules.....	51
2.6.1 Types of Fiscal Rules.....	53
2.6.2 Budget Balance Rules.....	53
2.6.3 Debt rules.....	53
2.6.4 Expenditure Rules.....	53
2.6.5 Revenue rules.....	53
2.7. The relevance of the fiscal rules theory for achieving Fiscal Discipline .....	54
2.8 Criticisms of the fiscal rule theory.....	55
2.9 Theoretical Approaches to Fiscal Discipline.....	56
2.10 Endogenous Economic Growth Theory.....	59
2.10.1 Criticisms of the endogenous economic growth theory.....	66
2.10.2 Theoretical Arguments for the Endogenous Economic Growth Theory.....	66
2.10.3 The Phenomenon of Jobless Growth.....	66
2.10.4 Theoretical Arguments for Jobless Growth.....	66
2.10.5 Balanced Growth.....	68
2.11.1 Economic Development Paradigms .....	68
2. 11.2 The Washington Consensus and Macroeconomic Stability of Ghana.....	68

2.11.3 Economic Development Model of the IMF and the World Bank.....	69
2.11.4 The Washington Consensus.....	70
2.11.5 The Effect of the Washington Consensus on Job Creation.....	73
2.11.5.1 Merits of the Washington Consensus .....	73
2.11.5.2 Demerits of the Washington Consensus.....	74
2.12 The Beijing Consensus.....	75
2.13 Chinese Development Model/Approach.....	76
2.14 Application of the Chinese Development Approach.....	77
2.14.1 Criticism of the Chinese Development Approach.....	78
2.14.2 The Impact of the Beijing Consensus on Job Creation in Ghana.....	79
2.14.3 Chinese Loans, Aids and Grants to Ghana.....	79
2.14.4 National Communication Project.....	80
2.14.5 Hydro-Electric Dam Project.....	80
2.14.6 Rail Transport and General Development.....	80
2.16 Background of the Project.....	86
2.16.1 The Sino Hydro Project.....	87
2.16.3 Project Objectives .....	88
2.16.4 Key Features of the Project.....	88
2.16.5 Deferred Repayment Terms .....	89
2.16.6 Benefits .....	90
2.17 Hypotheses Development .....	90
2.17.1 Fiscal Discipline and Job Creation.....	91
2.17.2 The impact of Washington and Beijing Consensuses on job creation.....	95
2.17.3 Structural Transformation and Job Creation .....	96
2.17.4 The impact of fiscal Institutions on Job Creation .....	102
2.18 The Conceptual Framework.....	103
2.19.1 Inflation as a Proxy for the Washington Consensus.....	108
2.19.2 Chinese Foreign Direct Investment as a Proxy For Beijing Consensus.....	109
2.20 Propositions .....	111
2.20.1 Inflation as a Moderating Variable.....	111
2.20.2 Chinese FDI as a Moderating Variable .....	112
2.21 Empirical Review.....	113
2.22 Ghana's Fiscal Performance.....	114
2.23 Fiscal Policy of Ghana from 1957 to 1990 .....	115
2.24 Fiscal Policy of Ghana from 1991 to 1999 .....	117
2.25 Fiscal Policy of Ghana from 1992 to 2009 .....	118
2.26 Fiscal Policy of Ghana from 2010 to 2018 .....	119
2.27 Fiscal Policy Options for Managing an Oil Economy .....	121
2.28 Oil Revenues Management and the Fiscal Space in Ghana.....	121
2.29 Public Financial Management Act and Fiscal Discipline in Ghana.....	123
2.30 Fiscal Discipline: Rules Rather Than Institutions .....	123
2.31 Political Commitment and Job Creation in Ghana.....	124
2.32 Macroeconomic Stability and Job Creation .....	124
2.33 Government borrowing, Spending, Debt Management and Job Creation .....	126
2.34 Government Spending and Job Creation.....	134
2.35 Fiscal discipline as a Social Norm and its impact on Job Creation.....	137
2.36 Job Creation and Job Destruction in the Theory of Unemployment.....	139
2.37 Ghana's return to the IMF for a Bailed out-2015-2019 .....	147
2.38 Implications of IMF loans on job creation in Ghana .....	148
2.39 Job Creation by Industries.....	148
2.40 Job Creation by Economic Sectors .....	149
2.41 Macro Perspective of Industrial Production: The case of Agri-business in Ghana.....	152
2.42 Impact of Institutions and Policies on Job Creation.....	152

2.43 Job Creation Definition and Types of Jobs .....	155
2.44 Employment and Unemployment .....	155
2.45 Decent and Meaningful Jobs.....	156
2.45.1 Temporary and Permanent .....	157
2.45.2 Direct, Indirect and Induced Jobs.....	157
2.45.3 Net Job Creation .....	157
2.45.4 Job Creation Measurement.....	157
2.46 Key Issues in Measuring Job Creation .....	158
2.47 Data Collection Methods for Measuring Job Creation .....	159
2.48 Structural Transformation and Job Creation .....	163
2.49 Government’s Transformational Policy for Job Creation in Ghana .....	165
2.50 The Role of Foreign Direct Investment on Job Creation .....	170
2.51 The Relationship Between Tax Incentives and Job Creation .....	171
2.52 Import-Substituting Industrialization and Job Creation .....	172
2.53. Export Oriented Industrialization and Job Creation.....	173
2.54 The Role of Local Content (Home Grown Policy) in facilitating Job Creation in Ghana .....	173
2.54.1 Ghana Beyond Aid Programme .....	173
2.55 Summary of Literature Review .....	178
<b>CHAPTER THREE METHODOLOGY .....</b>	<b>180</b>
3.1 Introduction.....	180
3.2 Research Paradigm.....	180
3.3 Motivation for Research Paradigm Choice .....	180
3.4 Research Philosophy .....	181
3.4.1 Philosophy Adopted for the Research.....	182
3.5 Research Philosophies and Stages of Research .....	183
3.6 Epistemology .....	187
3.7 Research Design.....	188
3.8 Research Approach .....	188
3.9 Research Population.....	190
3.10 Sampling Technique and Sample Size Determination .....	191
3.11 Sources of Data .....	192
3.11.1 Primary Data .....	192
3.11.2 Secondary Data .....	193
3.11.3 Questionnaire Administration and Primary Data Collection Procedures .....	195
3.12 Period of Data Collection.....	196
3.13 Pilot Testing .....	196
3.14 Validity and Reliability .....	196
3.14.1 Reliability.....	197
3.14.2 Validity.....	198
3.15 Econometric Models used for investigating the relationship between Fiscal Discipline and Job Creation .....	199
3.16 General-to-Specific (GETS) Modelling.....	200
3.17 Model Selection Strategies for General-to-Specific Modelling .....	201
3.18 Justification for the use of the GETS Modelling Approach.....	203
3.19 Modelling and Methodological Issues .....	204
3.20 Model Specification .....	205
3.21 Selection of Variables.....	207
3.22 Dependent Variable .....	207
3.23 Independent Variables Description .....	208
3.24 Autoregressive Distributed Lag Approach.....	213
3.24.1 Post-Regression Derivation of Long-Run Dynamics.....	<b>Error! Bookmark not defined.</b>
3.24.2 Testing and Integration.....	<b>Error! Bookmark not defined.</b>
3.25 Modelling Fiscal Discipline and Job Creation using Autoregressive Distributed Lag .....	214
3.26 Estimation Procedure .....	216

3.26.1 Descriptive Statistics.....	216
3.26.2 Stationarity Test .....	217
3.26.3 Augmented Dickey Fuller Test.....	217
3.26.4 Phillip Peron Test.....	217
3.26.5 Estimation of the Short-Run Relationship .....	218
3.26.6 Estimation of the Long-Run Relationship.....	218
3.26.7 Diagnostic Tests .....	218
3.26.8 Granger Causality Test.....	218
3.27 Procedures for Conducting Moderation Testing.....	219
3.28 Preliminary Data Analysis .....	219
3.28.1 Normality Test.....	220
3.28.2 Common Method Variance/Bias .....	220
Table 3.4 Statistical Tools Employed in the Study.....	220
3.28.3 Harman Single-Factor Test .....	221
3.29 Data Analysis for the Primary Data .....	221
3.30 Secondary Data Analysis .....	<b>Error! Bookmark not defined.</b>
3.32 Ethical Consideration.....	222
.....	223
<b>CHAPTER FOUR.....</b>	224
<b>DATA ANALYSIS AND RESULTS .....</b>	224
4.1 Introduction.....	224
<b>CHAPTER FIVE .....</b>	270
<b>DISCUSSION AND CONCLUSIONS .....</b>	270
5.1 Introduction.....	270
5.2 Discussion of Findings.....	270
5.2.1 Government Spending and Job Creation in Ghana .....	271
5.2.2 Public Debt and Job Creation.....	272
5.2.3 Structural Economic Transformation and Job Creation in Ghana.....	273
5.2.4 Government Revenue and Job Creation.....	284
5.2.5 Government Borrowing and Job Creation .....	285
5.2.6 Government Budget Deficit and Job Creation .....	287
5.2.7 ARDL Analysis .....	288
5.2.8 The Moderating Impact of Washington and Beijing Consensuses on Fiscal Discipline and Job Creation .....	289
5.3 Theoretical and Managerial Implications.....	291
5.4 Summary of Main findings .....	300
5.5 Achievement of the Study Objectives.....	303
5.6 Conclusion .....	303
5.7 Recommendations.....	305
5.8 Recommendations for Future Research .....	310
<b>REFERENCES.....</b>	311

## LIST OF TABLES

Table 1.1 Trend Analyses of Gross Domestic Product, Unemployment and Fiscal Performance of Ghana	17
Table 1.2: Government of Ghana Fiscal Actual & Projections	18
Figure 2.:1 Key Features Of The Chinese Development Model	78
Table 2.2 Some the Loans and Grants from China to Ghana (1995-2006)	79
Table 2.5. Total Sector Breakdown of Employment Generation by Chinese Companies, 2000-2012	82
Table 2.7 Ghana: Quantitative Programme Targets 1 (December 2008 – December 2009)	145
Table 2.8: Ghana Structural Benchmarks under PRGF Arrangement, 2009-2010	145
Table 3.3: Sources of Secondary data, Definition and Measurement	194
Table 3.2 Sample Distribution	192
Table 3.2 Comparison of Research Philosophies	186
Table 3: Chinese Loans with Ghana	80
Table 4 Total employment generated in Ghana by Chinese companies from 2000 to 2012	81
Table 4.1: Questionnaire Survey	224
Table 4.2 Respondents’ Demographic and Socio-Economic Characteristics	224
Table 4.3 Age Distribution	225
Table 4.4 Educational Background of Respondents	225
4.3 Position held in the Organization	226
Table 4.5: Position held at the Organization	226
Table 4.6: Number of years of Employment	230
Table 4.7: In which way(s) do(es) Fiscal Discipline influence Job Creation?	231
Table 4.8 Descriptive Statistics	232
Figure 4.4: Challenges facing the Government in maintaining fiscal discipline	234
Table 4.9 Normality Test	235
Table 4.10: Cronbach’s Alpha Coefficient Results	235
Table 4.11: Harman’s Single Factor Test	236
Table 4.12 Fiscal Discipline and Job Creation (General-to-Specific Analysis)	236
Table 4.13 Fiscal Discipline and Job Creation (Specific Analysis)	237
Table 4.14: Government Spending and Job Creation (General-to-Specific Analysis)	239
Table 4.15 Government Spending and Job Creation (Specific Analysis)	240
Table 4.16: Modelling Structural Transformation and Job Creation (General-to-Specific Analysis)	241

Table 4.17: Structural Transformation and job creation (Specific Analysis) .....	242
Table 4.18 Modelling of Public Debt and job creation by OLS-CS .....	242
Table 4.20 Modelling Borrowing and Job Creation by OLS-CS(General to Specific Analysis).....	244
Table 4.21 Modelling Borrowing and job creation by OLS-CS-Specific Analysis .....	244
Table 4.22 : Model Summary.....	245
Table 4.23 Descriptive Statistics.....	250
Table 4.24: Results based on the ADF approach to Unit Root Test.....	253
Table 4.25: Results of the Phillips-Perron (PP) Unit Root Test.....	254
Table 4.26 Bounds Test for Cointegration .....	255
Table 4.27: Short Run Relationship using the ARDL Model .....	<b>Error! Bookmark not defined.</b>
Table 4.28 Estimated Long Run Coefficient using the ARDL Approach .....	256
Table 4.29 Estimates of the Short-run Error Correction Model.....	257
Table: 4.30 Granger-Causality Test Results.....	<b>Error! Bookmark not defined.</b>
Table 4.31: Model Diagnostics .....	<b>Error! Bookmark not defined.</b>
Table 4.32: Ramsey RESET Test.....	<b>Error! Bookmark not defined.</b>
Table 4.33: Ramsey RESET Test.....	<b>Error! Bookmark not defined.</b>
Table 4.36 Regression-Based Moderating Test Results .....	264
Table 4.37 Results from Hypothesis Testing.....	266
Table 4.37.3 ARDL Analysis.....	267
Table 4.37: Summary of Hypothesis.....	268

## LIST OF FIGURES

Figure 2.1: Fiscal Deficit as a Percentage of GDP from 1965 to 1990.....	117
Figure 2.2: Fiscal Deficit as a Percentage of GDP from 1991 to 1999.....	118
Figure 2.3: Fiscal Deficit as a Percentage of GDP from 1992 to 2009.....	119
Figure 2.4: Fiscal Deficit as a Percentage of GDP from 2010 to 2018.....	120
Figure 3.3: A Schematic Representation of the Research Approach.....	190
Figure 3.1 Research Onion Process.....	183
Figure 4.5 Trend Analysis of Key economic indicators of Ghana (1981-2019).....	249
Figure 4.6: Jobs Created by the Chinese in Ghana .....	250
Figure 4.7: Jobs created by the Public Sector .....	252
Figure 8: Jarque-Bera Normality Test.....	<b>Error! Bookmark not defined.</b>
Figure 4.14.3: Jobs Created by the Private Sector .....	253

## ABSTRACT

This study investigates the impact of fiscal discipline on job creation in Ghana. Specifically, the study was designed to analyze the interactions between the Washington and Beijing Consensuses and how these economic paradigms have affected fiscal discipline and job creation in Ghana. The study reviewed the theoretical literature on fiscal discipline and job creation in order to place the research in the appropriate theoretical framework. The empirical literature indicates that as a result of the persistent rise in government spending and borrowing, public debt of Ghana has gone up as against low growth of job creation over the past two decades. The study made use of primary and secondary data. In order to collect primary data, questionnaires were administered to 450 respondents to answer questions on the topic. The respondents were selected based on purposive and stratified sampling techniques.

To achieve the objectives of this study, primary data was used in the first stage of the analysis using General-to-Specific Econometric Modeling (GETS) to analyze the relationships between fiscal discipline and job creation. To analyze the short run and long run impacts of fiscal discipline on job creation, secondary annual data from 1981 to 2019 was used with the Autoregressive Distributed Lag (ARDL) approach with Error Correction Model were also applied. Further, a Granger Causality test was carried out to examine the causal relationship between fiscal discipline and job creation whilst the Bounds Test was conducted to assess the existence of co-integration.

The findings indicate a positive and statistically significant long-run relationship between fiscal discipline and job creation. Also, in the short run a uni-directional Granger causality relationship exists between fiscal discipline and job creation. It was also found that fiscal indiscipline negatively affects job creation in Ghana in the long run. The study recommends that government should borrow for very high priority projects that could contribute to job creation. It is further recommended that government should put in place measures to ensure strict fiscal discipline by cutting down its expenditure both at the central and local government levels to free up resources to create jobs in the medium to long-term.

**Key words: Fiscal discipline, job creation, short run, long run, government expenditure**

## **CHAPTER 1: INTRODUCTION**

### **1.1 Overview**

This chapter presents an introduction to the study and lays the foundation for the rest of the study. It outlines the background to the study, problem statement, research objectives, and research questions, significance of the study, delimitation and limitations, definition of key terms and organization of the remainder of the study. This chapter also presents the contributions to literature and knowledge as a result of conducting this research.

### **1.2 Background to the Study**

Fiscal discipline represents all the key national, economic and statistical aggregates such as government spending, government tax revenue, budget deficit, borrowings, fiscal balance and the overall fiscal performance of an economy. The goal of fiscal policy is to improve fiscal performance, sustain macroeconomic stability and reduce shocks and vulnerabilities in an economy (Sadiq, 2010).

Traditional economic models such as the classical and Keynes theories emphasize the need for the use of fiscal discipline as an effective tool for boosting job creation. This school of thought underscores the fact that government spending affects the economic growth and development of an economy and thus constrains government efforts to create jobs. These traditional views further imply that fiscal discipline positively influences job creation in a manner that is determined by a government's deliberate policy to increase spending and borrowing. The weaknesses associated with these traditional theories are that they tend to encourage more spending and borrowing with their resultant negative effects on job creation (Larch et al., 2011).

Fiscal discipline remains one of the principal tools used by governments to create jobs in an economy (Rena and Sanchita, 2012). An effective fiscal policy lends credence to macroeconomic stability which attracts private sector investments, leads to job creation and improves the living standards of the people through enhanced savings and increased household income.

An efficient economy is supported by improved fiscal discipline, reduced government spending and financial management (Brunila, 2002). Alm and Rogers (2011) demonstrated that fiscal discipline entails cutting down government spending, reducing vulnerabilities within an economy, fiscal shocks, effective management of public debt and achieving sustained economic growth and development. Many governments fail to effectively apply fiscal policies in the management of the economy in order to create jobs (IMF, 2007).

A number of economists hold the view that by focusing on fiscal discipline, more jobs can be created. According to this view, fiscal discipline enables governments to adopt pro-poor economic policies to lead the crusade for job creation (Baah-Boateng, 2015). In these contexts, some scholars in economics have based their arguments on the premises that home grown economic policies are necessary to create jobs. These arguments, however, also place emphasis on the pursuit of fiscal policies that ensure that government engages in prudent spending and responsible borrowing as tools for job creation (Alkire et al., 2011).

The dominant views on fiscal discipline and job creation date back to the 1950s, 1960s and the early 1970s when Kuznets (1955) and Solow (1956) utilized the U-hypothesis and growth models to explain the nature of relationship between developed and developing countries and how developing countries could keep pace with the advanced countries in order to reduce unemployment. Kuznets' inverted-U hypothesis states as the economy grows income distribution deteriorates and this is improved when economic development is eventually achieved in later stages of development. As a

result, there were interventions by governments, International Monetary Fund and World Bank to finance infrastructure projects in a bid to grow developing economies to create jobs after the global recession.

The 1980s also saw similar but more pronounced interventions such as the Economic Recovery Programme (ERP) and Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD). Unfortunately, the World Bank and the IMF policies failed to meet the fiscal policy management targets for developing countries such as Ghana and this affected the economy policy for job creation (Abouharb & Cingranelli, 2007).

According to Williamson (1989), the Term Washington Consensus refers to a set of ten economic policy prescriptions created by the Bretton-Woods Institutions to promote economic reform for developing countries and were mainly implemented in the 80s up to till now. Ramo (2004) defined Beijing Consensus as the Chinese economic model that emphasizes innovation and experimentation to achieve equitable growth without economic policy prescriptions and has been also implemented from the 2004 to the present day. Though Ghana has implemented both the Washington and the Beijing consensus to maintain macroeconomic stability and to boost job creation, unemployment rate is high. According to the Ghana Statistical Service (2015), the unemployment situation hovers around 10.5% within the Ghanaian setting. Fiscal discipline has thus become one of the most essential prerequisites for improving and sustaining economic performance, maintaining growth, achieving macroeconomic stability and reducing fiscal slippages (Sparreboom and Baah-Boateng, 2011).

This study focuses on how fiscal discipline affects government borrowing and job creation in Ghana. In the context of Ghana, borrowing is considered to be a mechanism for enabling the government to finance its budget. The consistent borrowing pattern and the excessive spending of the government undermine job creation. As a result of the persistent rise in public debt, economic growth has been low

and this has affected job creation over the past two decades. On the other hand, if the government is on infrastructure development such as the building of roads, it naturally creates jobs.

The quest for effective fiscal discipline is also of particular importance to Ghana since it's impacts on macroeconomic stability, economic growth and determines how public debt is managed to promote job creation. The key research question relating to the study is whether fiscal discipline can be maintained to contribute to job creation particularly in the Ghanaian context where there has been progressive growth in the Gross Domestic Product (GDP) over the past decade but has not resulted in job creation.

In the context of Ghana, one of the possible reasons why the country has not been able to translate the high GDP growth into job creation despite registering an average GDP growth rate of about 6% between 2007 and 2018 which is higher than the ECOWAS average is that most of the growth occurred in the services sector which does not employ the vast majority of the people. This implies that growth has not been shared across the economic landscape of Ghana. Again, most of the fast growing companies and enterprises are not owned by Ghanaians since they are capital intensive. This has implications for capital flight, sustainability of the growth and the extent to which jobs can be created in the economy (Bank of Ghana, 2018). The discovery of oil in commercial quantities in 2007 in Ghana and its subsequent production in 2010 required investment from the government. Unfortunately, the oil and gas sector is more of an enclave and does not employ many people.

In the work of Aryeetey, Baah-Boateng, Ackah and Lehrer (2014), Ghana became a middle income country in 2011 after rebasing its economy. Per capita income moved upwards to \$1,000 in 2007. Since 1984, Ghana has progressively recorded economic growth with GDP registering 15% in 2011, the fastest in the world at that time with per capita income increasing to \$1,900 in 2013. The major setback has been the inability of the government to reduce excessive spending to positively impact on job creation and poverty alleviation.

Election pressures have always had detrimental effect on fiscal performance and thus affected fiscal discipline in Ghana. According to Doh-Nani (2011), fiscal performance of Ghana worsens during election period with its associated rise in public debt. The lack of strong political commitment and the need for Ghana to optimize its fiscal rule has necessitated the study of fiscal discipline in Ghana. The persistent growth in budget deficit from 7.5% of GDP in 2010 to 8.4% in 2012 to 9.1% in 2013 is worrying. Even though budget deficit to GDP reduced to 7.1% in 2018, the extent of unpredictability associated with budget deficit makes budget planning inefficient and leaves little resources for creating jobs in the Ghanaian economy. Also, as a result of poor planning and weak tax administration systems, revenue targets are never attained whilst government spending budget is often exceeded. There are many people working in the informal sector who are not taxed because data on these people are scanty. This is one of the fundamental causes of the budget deficit in Ghana.

Again, the government of Ghana has problems with its spending practices especially when related to education, health and infrastructure. The government of Ghana borrows from the local and external Euro Bond Markets anytime the economy booms, and thus uses the revenue that has been mobilized to service the debt. There is the risk that monies mobilized from the oil fund will be used to service loans and might not be invested for the purposes for which the oil fund was set up.

Additionally, the presence of Ghana's statutory and earmarked funds to the District Assemblies common fund; road fund and Ghana Education Trust Fund have created fiscal rigidities in government's annual budget. In 2018, the government of Ghana set up a Fiscal Council and Financial Stability Council as an independent body to oversee the implementation of fiscal rules and thus helps to develop accountable and transparent budget and pursue strategies to monitor public debt. This was the first time such an independent institution had been set up to advise government on fiscal issues.

Lastly, fiscal sustainability has remained a major challenge in Ghana in the last three decades and this has affected the job creation efforts of the government.

Based on these afore-mentioned factors and understanding of the Ghanaian economy, the relationship between fiscal discipline and job creation has been weak. In addition, weak fiscal governance has made it impossible for fiscal targets to be achieved. The study investigated how fiscal discipline can contribute to reduction in government expenditure to pave the way for more jobs to be created in the Ghanaian economy. Presented below are the trend analyses of Gross Domestic Product, unemployment and fiscal performance of Ghana from 2007 to 2018.

Table 1.1 critically looks at the fiscal performance of Ghana, unemployment rate and the gross domestic product and indicates that the fiscal deficit has been deteriorating since 2007 except 2008 that Ghana recorded some surplus. Also, unemployment rate has been growing from 4.6% in 2007 to 6.7% in 2018. This is certainly worrying as more people, particularly the youth, have been looking for jobs but they are not there. Debt to GDP has been increasing steadily from 22.6% in 2007 to 59.30% in 2018. Inflation was 10.7% in 2007 and reduced marginally to 9.8% in 2018. Gross Domestic Product registered a growth from 4.3% in 2007 to 6.3% in 2018. Yet no meaningful jobs have been created to date (Baa-Boateng, 2012). The data therefore underscores the fact that job creation has been limited in Ghana despite improvement in inflation and gross domestic product because the fiscal performance of Ghana has worsened from 2007 to 2018.

**Table 1.1 Trend Analyses of Gross Domestic Product, Unemployment and Fiscal Performance of Ghana from 2007 to 2018.**

<b>Year</b>	<b>GDP</b>	<b>Inflation</b>	<b>Government Spending</b>	<b>Unemployment</b>	<b>Debt to GDP</b>	<b>Revenue To GDP</b>	<b>Fiscal Deficit</b>
<b>2007</b>	4.30%	10.70%	10%	4.60%	22.6	12.8	-5.30%
<b>2008</b>	9.10%	16.50%	19%	4.70%	24.90%	11.80%	-5.90%
<b>2009</b>	4.80%	13.10%	34%	5.20%	27%	12.30%	-5.40%
<b>2010</b>	7.90%	6.70%	5%	5.30%	34.60%	12.50%	-7.50%
<b>2011</b>	14%	7.70%	17%	5.90%	31.40%	14.10%	-5.50%
<b>2012</b>	9.30%	7.10%	15%	6%	35.60%	13.70%	-8.40%
<b>2013</b>	7.30%	11.70%	7%	6.40%	43.20%	12.60%	-9.10%
<b>2014</b>	2.90%	15.50%	-2%	6.50%	51.20%	13.40%	-8.00%
<b>2015</b>	2.20%	17.20%	20%	6.80%	54.80%	14.90%	-4.10%
<b>2016</b>	3.40%	17.50%	7%	6.80%	57.10%	13.40%	-6.90%
<b>2017</b>	8.10%	12.40%	9%	6.60%	57.30%	13.90%	-4.10%
<b>2018</b>	6.30%	9.80%	19.20%	6.70%	59.30%	14.50%	7.00%

Table 2 analyses the fiscal stance of Ghana from the actual and projections. It can be inferred from the table that the overall financial and energy sector related costs for 2017 was -4.7 and is projected to be -4 in 2024. Total government revenue was 13.9% of GDP in 2017 and is projected to improve to 15% of GDP. Also, government expenditure was 18.7% of GDP in 2017 and will increase to 20.5% of GDP in 2024. Gross Debt was 57.3% in 2017 is projected to increase to 60.2% of GDP in 2024. In terms of external and domestic debt, there is some in shift from external borrowing to domestic borrowing. In 2017, domestic debt of Ghana was 27.7% and is projected to increase to 35.3 by 2024. External debt in 2017 was 29.5% of GDP and will reduce to 24.9% by 2024. Clearly, government's borrowing from the

domestic market is expected to increase and this does not bode well for the Ghanaian economy as the government will crowd out the private sector. Primary balance is expected to be positive, registering 0.5 in 2017 and is projected to improve to .04 in 2024.

<b>Table 1.2: Government of Ghana Fiscal Actual &amp; Projections</b>								
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Revenue	13.9	14.5	14.8	15.5	15.6	15.5	16.5	15.4
Expenditure	18.7	21.5	21.8	21.9	21	20.5	21.5	20.5
financial and energy sector related costs	0	3.3	2.3	1.5	1	1	2	1
Overall balance	-4.7	-7	-7	-6.4	-5.4	-5	-4	-5
Overall balance excluding financial and energy sector related costs	-4.7	-3.7	-4.7	-4.9	-4.4	-4	-3	-4
Primary balance	0.5	-1.4	-1.3	-0.3	0.6	1	2	0.4
Primary balance excluding financial and energy sector related costs	0.5	1.9	0.9	1.3	1.7	2.1	3.1	1.4
Government Debt (gross)	57.3	59	63.1	63.3	63.1	62.3	63.3	60.2
Domestic debt	27.7	30.1	31	30	31	32.2	33.2	35.3

External debt	29.5	28.9	32.1	33.2	32.1	30.1	31.1	24.9
---------------	------	------	------	------	------	------	------	------

**Source: The World Bank, 2020**

The concept of structural economic transformation posits that there are defining characteristic of the development process; from both the cause and the effect perspective. Economic growth is the result of structural change. Timmer et al., (2012) points to four interrelated processes that underpin the structural transformation process. These include having parity between agriculture and industry and employment, ensuring a rapid process of urbanization as people migrates from rural to urban areas, the rise of a modern industrial and service economy, formalizing the economy in terms of getting data for planning and decision-making, etc.

It is significant to note that structural economic transformation is supported by rising labour productivity due to growth within key sectors of the economy. This has the tendency to create jobs. As McMillan et al. (2013) noted job creation is maximized when technology and skills are applied to raise worker productivity.

Baah-Boateng and Ewusi (2013) demonstrated how structural economic transformation could contribute to job creation in Ghana. They contended that for jobs to be created in an economy, one of the key levers must be to achieve growth in the value-added sectors of the economy such as manufacturing and industry. Thus, structural economic transformation that focuses on upgrade of technology and human resource development holds considerable promise for creating jobs in Ghana.

In addition to the poor structural economic transformation challenge that has bedeviled Ghana for years; one most significant factor underlying the inability of the government of Ghana to create jobs is the poor fiscal performance of Ghana. Ghana adopted the HIPC initiative in the early 2000s to cut down its rising debt. By 2001, Ghana had benefited from the HIPC programme in which it received

debt reliefs from the IMF, African Development Bank and International Development Association (Bank of Ghana, 2005). Ghana concluded that reform in July 2004 and accomplished the various targets and conditionalities recommended by the International Monetary Fund and the World Bank (Abiad, 2005).

Moreso, the empirical literature relating to fiscal discipline and job creation showed mixed results. Eminer (2015) contended that improved government spending will lead to fiscal discipline which will boost economic growth and eventually create jobs. This relationship is particularly important in the fiscal policy management of a developing country such as Ghana. Thus, in the context of developing countries, strong fiscal discipline acts as a motivating factor for the implementation of structural reforms (Deroose and Turrini (2005) and this positively impacts on job creation (Duval, 2006).

More recently, Ghana has found itself in high debt as a result of poor fiscal performance, dependence on foreign aid and borrowing to support its economic growth and development agenda. According to Nyarko (2014), Ghana's excessive borrowing has contributed steadily to its high debt. Government would spend so long as it considers necessary, regardless of its impact on job creation (Larbi, 2012). The government of Ghana has shifted focus from borrowing from the domestic market to the Eurobond market where it finds it relatively easier to borrow. However, no significant jobs have been created over the past three decades from these borrowings (Aryeetey et al., 2014) and (Baah-Boateng, 2013). Ghana's public debt has exponentially increased from 48.07 percent in 2012 reaching 72.6 of GDP by 2016 (Larbi, 2012).

The endogenous growth theory provides the basis for explaining why the Ghanaian economy has not been able to create jobs despite Ghana's strong macro-economic fundamentals. According to Romer (1990) jobs are created in an economy where there is macroeconomic stability, economic growth and development.

Serra and Stiglitz (2016) contended that the endogenous economic growth theory is an alternative to the dependency theory which promoted the Washington Consensus vigorously by the World Bank and the International Monetary Fund as a set of economic development policies for supporting emerging economies such as Ghana. They indicated that the focus of the IMF Programmes was on cutting government's spending on military, public administration, education and health, and public infrastructure. There was also the need to reduce government spending on subsidies, particularly towards agriculture, privatize state-owned enterprises and implement trade and financial market liberalization policies to attract foreign direct investment (Williamson, 2004). They however argued that inclusive, home grown, pro-poor economic policies are necessary to create jobs since the developing countries have not benefited significantly from the implementation of the Washington Consensus.

Unfortunately, the government of Ghana has not been successful in addressing the fiscal discipline conundrum and has oftentimes resorted to the International Monetary Fund for loans to implement programmes and interventions aimed at addressing the fiscal slippages and ensuring that the economy grows to create jobs. Since independence, Ghana has gone to the IMF sixteen times (16) to help correct fiscal imbalances in order to restore macroeconomic stability as most of the interventions have not supported social welfare, poverty alleviation and job creation (Aryeetey, Baah-Boateng & Ackah, 2014).

More so, the Beijing consensus, which is an alternative to the Washington Consensus, focuses on self-determination, innovation and independence and does not use conditionalities for a country to access loans, has not contributed substantially to Ghana's fiscal discipline and job creation effort. (Tull, 2018).

The study gives a vivid account of how fiscal discipline impacts on job creation and recommend ways of improving the situation. More importantly, this study also investigated the impact of fiscal discipline on job creation particularly from the perspectives of the Washington and the Beijing consensuses in Ghana. This study contributes to literature and deepens our understanding of how the two consensuses have affected fiscal performance and its implication for job creation in Ghana.

### **1.3 Problem Statement**

The problem this study seeks to address manifests from two dimensions. One dimension of the problem is that unemployment rates have reached alarming proportions in Ghana due to the inability of the government to reduce borrowing, cut down its excessive recurrent expenditure so that it can focus on growth-oriented home grown policies that would create jobs for Ghanaians (Baah-Boateng, 2012). Again, the inability of the government of Ghana to reduce dependence on the IMF and China for external loans and aids has affected the economic development paradigm of Ghana and contributed negatively to job creation. The implementation of economic policies such as the Structural Adjustment Programme by IMF and World Bank from the 1980's to date did not achieve impressive results. This brought about a high fiscal deficit which eventually led Ghana to adopt HIPC in the early 2000s (Botchwey et al., 1999). These persistent lapses in fiscal management manifest from both the domestic and external angles. From the domestic perspective, there are concerns of the debilitating effects of high deficits on the Ghanaian economy. Externally, development partners and donors have bemoaned the rising public debt which results in the downgrading of Ghana by international rating companies. Ghana's sovereign ratings since 2009 have declined from B+/B1 to B-/B3/B according to Moody. This shows that Ghana's ability to borrow from the international market has worsened. However, after the rebasing in September 2018, Ghana's rating improved to B+ (Ghana Statistical Service, 2018).

As a result of the dependence on the IMF, Ghana has not been effective in the implementation of its home grown economic policies to create jobs. Successive governments have attempted to implement home grown policies but due to weaknesses in programme design, funding, monitoring and evaluation, these programmes could not be sustained. For instance, Dr. Kwame Nkrumah, implemented an agricultural programme to boost local food production, Ignatius Kutu Acheampong's Operation Feed Yourself Programme helped Ghana to achieve self-sufficiency in food production in 1972. The Senchi Consensus under President Mahama's Regime also came out with a policy guideline to stabilize the economy, create jobs and reduce the importation of chicken. The focus of the Ghana Beyond Aid Programme is to boost domestic tax revenue mobilization, increase foreign direct investment as well as utilize mechanized agriculture to increase local food production. This study is highly relevant now because it adopts a holistic approach to the implementation of home grown policies in order for sustainable jobs to be created.

According to Aryeetey (2004), Ghana's inability to create jobs can be attributed to poor fiscal performance under the implementation of IMF and World Bank economic reforms which has further widened the unemployment problem in Ghana.

As a result of the economic policy prescriptions by the IMF and the World Bank, job creation has been constricted due to austerity measures and conditionalities imposed on Ghana. For instance, conditions such as the freeze on employment in the public sector and the servicing of external loans leaves the government of Ghana with limited resources to create jobs in the Ghanaian economy. Despite Ghana's success story in achieving moderate macroeconomic stability under IMF regime, quality of life of Ghanaians has not significantly improved. Unemployment continues to be the bane of the Ghanaian economy. *In a quote from Mr. Kwamina Bartels, a former minister of Ghana who said in May 2001 that "After 20 years of implementing structural adjustment programmes, our economy has remained*

*weak and vulnerable and not sufficiently transformed to sustain accelerated growth and development. Poverty has become widespread, unemployment very high, manufacturing and agricultural sectors are on the decline and our external and domestic debts much too heavy a burden to bear''.*

Again, the impact of the Beijing consensus on job creation in Ghana has come under attack. This is because despite China's laudable and non-prescriptive economic policies, the economic situation and job creation in Ghana has incessantly continued to be low. Ghana's relationship with China dates back to 1960 when the two countries established diplomatic relations. Since then, successive governments of Ghana have deepened ties with the Chinese government (UNCTAD, 2011). Ghana has approached China on a number of occasions for loans, aids and grants.

According to the available statistics from the Ghana Investment Promotion Centre, Chinese Foreign Direct Investments to Ghana totaled \$543.5m in 2013. This made China the tenth provider of Foreign Direct Investments to Ghana. These investments went into the manufacturing, construction, tourism, service and agricultural sectors of the Ghanaian economy (Condon, 2012).

Despite this impressive flow of foreign direct investment to Ghana, the Chinese development model pays little attention to social welfare policies, unemployment and poverty alleviation (Li, 2015). The biggest challenge to the Chinese model is the lack of sustainable development as most of the projects implemented in Ghana have minimal duration. Thus, the jobs created by such interventions are not permanent. In short, the Beijing Consensus is an experimental and gradual approach to economic development that focuses on a strong state leadership and control. The lack of dynamism with the Chinese economic development model poses risky doses of rigidity which impacts on fiscal and monetary policies of developing countries and therefore affects their economic development (Guo & Li, 2012).

Hence, one wonders if the implementation of both the Washington and Beijing consensus is a panacea for the socio-economic development of Ghana. Ghana's partnership with China has also not yielded significant jobs since most of the support received from China to Ghana came from manufacturing, general trading, construction and energy projects whose timelines are fixed and therefore do not reflect sustainable jobs (Robel, 2010).

Over the past five years Ghana has been running a perennial budget deficit. According to Kwakye (2014), the sources of the deficit can be attributed to high government spending and borrowing as well as weak Parliamentary oversight on budget discipline. The lack of budget discipline has resulted in the implementation of the supplementary budget by governments. Whilst the preparation of Ghana's budget conforms to best international practices, weak monitoring and control induces laxities leading to government overspending beyond what is budgeted for. Unfortunately, revenue mobilization always falls short of expenditure and thus creates a budget deficit.

This brings about more borrowings by the government to finance its budget thus destabilizing the economy. This affects the ability of the government to create jobs, savings and investments (Amo-Yartey, 2015). According to Kusi (2016) government spending goes up during election period and is a major contributory factor in the fiscal deficit being experienced by Ghana today. Ghana's fiscal deficit increased from 5% of GDP to 9% of GDP during the December 2016 elections. Additionally, Ghana's quest for infrastructure development has contributed to high borrowings from its development partners such as the IMF, World Bank and China for road and electricity projects. Unfortunately, these loans have not been managed effectively (Asiama and Owusu-Afriyie, 2014).

The second dimension of the problem relates to the rising graduate unemployment in Ghana. Ghana has 89 accredited public and private degree-awarding universities, 8 technical universities, 2 polytechnics and a number of diploma awarding institutions (NAB, 2017). In all, there are 210 tertiary

institutions in the country, with an estimated annual graduate turnover of 300,000 students. According to the Institute of Statistical, Social and Economic Research (ISSER, 2018), only 10% of graduates find jobs after their national service and sometimes it can take up to 10 years for a large number of them to secure employment. These graduates are also unable to set up their own businesses due to varied reasons, including lack of entrepreneurial skills and lack of capital. The public sector continues to employ a large number of the formal sector workforce, consisting predominantly of graduates. From 2015 to 2017, however, government placed a net freeze on public sector employment in all ministries, departments and agencies (MDAs) except for education and health, due mainly to the rising public sector wages and salaries cost.

This frightening dimension of the graduate unemployment problem in Ghana relates to the fact that an estimated 44% of graduates fail to get jobs upon leaving school (Appiah-Kubi, 2016). In 2018, the government, in an effort to stem this tide, instituted the Nation's Builders Corp (NABCO) initiative to reverse the increasing trend of joblessness among university graduates by providing jobs for 100,000 graduates. The programme sought to address graduate unemployment in the country by offering tax incentives to young and graduate entrepreneurs to encourage them to set up their own companies to reduce unemployment. Private companies operating in Ghana that will employ graduates will also be offered tax incentives.

Moreover, the problem of joblessness is aggravated by the fact that consistently for the past three decades, unemployment has increased from 2.8% in 1984 to 4.7% in 1992 and by the end of 2000, the rate had reached a worrying level of 10.4% (Baah-Boateng, 2015). After a transitory reduction in the rate of unemployment to 6.5% in 2008 and subsequent decrease to 5.3% in 2010, and 2.2% in 2013, the rate of unemployment suddenly increased to 11.9% by the end of 2015 (Ghana Statistical Service, 2015).

According to the Ghana Statistical Service (GSS) 2015 Labour Force Report, the estimated workforce in the country was 10.5 million in 2013, of which 1.3 million or 11.9% were unemployed. Nearly 733,522 or 58.6% of the unemployed were located in the urban areas and 517,391 or 41.4% in the rural areas.

The Report shows that the vast majority of the unemployed, about 68.8%, were young people aged between 15-35 years. Majority of the employed, about 91.8% were in the private sector, of which 90% of them were in informal sector employment. Again, some 73.7% of the employed persons were in vulnerable employment with about six million of them, constituting 64.6%, being self-employed. The inability of the formal sector to generate enough jobs has pushed many Ghanaians into the informal sector, consisting of small to medium-scale enterprises which constitutes 70% of the businesses in Ghana (Baah-Boateng and Ewusi, 2013).

Even though other factors may be at play, the lack of structural transformation of the Ghanaian economy from an agrarian and small scale enterprise economy to an industrialized one also contributes to the unemployment situation in Ghana. Similarly, the failure of the government of Ghana to be fiscally responsible and to channel its borrowing into projects with good economic returns is a major concern. Again, government spending has focused largely on recurrent expenditures leaving little room for capital expenditure that will build the infrastructure for jobs to be created in the Ghanaian economy. Where there is no growth in the economy, jobs are not created. This is because unemployment rates in Ghana are strongly correlated with economic growth and job creation.

A study by Boakye (2018) found that a high non-oil real GDP growth rate brings about a strong decrease in total and youth unemployment rates. The correlation coefficient average for non-oil real GDP growth rate and end-period total unemployment rate in a sample covering the period 1984 to

2015 was estimated to be -0.71, while that between average non-oil real GDP growth rate and end-period youth unemployment rate was -0.90.

Aryeetey and Baah-Boateng (2016) also found that Ghana's employment growth lags behind economic growth, with an estimated output elasticity of employment of 0.47, suggesting that every 1% of annual economic growth yields 0.47% growth of total employment. The unemployment problem seems to be more precarious for the youth aged between 18-35 years. This age group constitutes about 26% of the entire population of the country, but they account for nearly half of the total unemployed Ghanaians

Fiscal policy plays an important role in achieving inclusive economic growth of a country by reducing inequalities, alleviating poverty and generating productive employment opportunities through the regulation of public expenditures and taxes. In the first place, Ghana as a developing country requires substantial resources to finance its economic growth, invest in physical infrastructure, social and other public services. Secondly, Ghana has limited resources and therefore requires government to be efficient, disciplined, transparent, independent and accountable.

Thirdly, the public finance system holds together the whole system of government agencies with their programmes and objectives which are usually tied to the economic development strategy of the country. Therefore, its failure may lead to the failure of the whole system and thus spark social tensions and upheavals. The relationship between fiscal discipline and job creation is positively related (Monacelli et al. 2010 and Turrini 2013). Since productive employment is a key indicator of Inclusive growth, it is important for the Ghanaian economy which has consistently shown growth to contribute to job creation and poverty alleviation (Kapsos; 2005, McKinsey; 2012; Fox & Gaal; 2008). Access to productive employment has become a problem in Ghana. Ghana's economic growth can be christened as 'jobless growth economy' because growth is not accompanied by a corresponding increase in jobs creation (Bruckner and Pappa, 2012).

Again, fiscal policy does not seem to be very effective in generating productive employment to ensure inclusiveness of the growth process either. Ghana's fiscal performance has shown a broad turnaround in the past 18 months. The fiscal deficit narrowed to 5.9% of GDP in 2017 from 9.3% in 2016 mostly represented by expenditure measures as revenues remained weak. The fiscal deficit at the end of first half 2018 reduced to 2.7% of GDP compared to the target of 2.8%. This significant drop in fiscal deficit should have led to job creation but Ghana is yet to come to terms with this reality.

It is against this background that that the researcher deems it imperative to critically examine the impact of fiscal discipline on job creation in Ghana.

#### **1.4 Research Questions**

This study attempted to answer nine research questions:

1. What is the relationship between fiscal discipline and job creation?
2. What is the relationship between increased government spending and job creation?
3. To what extent has the implementation of the Washington and Beijing consensuses contributed to fiscal discipline and job creation in Ghana?
4. How does government borrowing impact on job creation in Ghana?
5. What is the relationship between public debt and job creation?

#### **1.5 Research Objectives**

The main objective of this study was to examine the impact of fiscal discipline on job creation in Ghana. The study had five specific objectives:

1. Establish the relationship between fiscal discipline and job creation in Ghana.
2. Investigate the relationship between increased government spending and job creation.

3. Examine the moderating roles of the Washington and Beijing consensuses on fiscal discipline and job creation in Ghana
4. Examine the impact of government borrowing on job creation in Ghana
5. Determine the relationship between public debt and job creation.

### **1.6 Significance of the Study**

The study was significant in that it highlighted critical components of fiscal discipline and its interaction with job creation variables. In the first place, the study demonstrated the long-run interrelationship between fiscal discipline and job creation in the Ghanaian economy. As noted by Yin (2011), measuring fiscal discipline is a complex construct which entails tax revenue management, prudent government spending and debt management. This study thus would focus on key international strategies and policies for maintaining fiscal discipline in Ghana including measures to address government's growing expenditure in an attempt to stimulate job creation.

Secondly, the study helped develop a fiscal discipline framework for stimulating job creation. From the perspective of the researcher, the concept of fiscal discipline as related to job creation is hardly understood. The study therefore discussed some of the structural, fiscal and economic transformational strategies for driving job creation in Ghana.

Thirdly, this study indicated the fact that one of the most innovative means of reducing more borrowings is for the government to achieve efficiency in its tax mobilizations. When domestic tax revenue increases, borrowings will reduce whilst increased efficiency will improve tax collection. Bleaney and Halland (2016) also demonstrated that there is a negative correlation between fiscal discipline and inefficient allocation of resources which will negatively impact on job creation. Fiscal discipline has not considerably been improved in Ghana even after Ghana commenced production of oil in commercial quantities due to high borrowings and inefficient allocation of resources.

Similarly, the study underscored the use of optimal fiscal policy to achieve efficient allocation of public resources. The research will contribute to knowledge and add to the stock of literature with specific reference to implementing fiscal policies for improving the fiscal performance of Ghana. The significance of this research lies in the fact that prudent government spending, responsible borrowings and efficient tax policies are critical to economic job creation (Doh-Nani, 2011).

Finally, the study similarly contributes to literature on local content and home grown policies and how these policies tend to create jobs. To policy makers and the government of Ghana, the study provides insightful information for implementing the Ghana Beyond Aid programme.

### **1.7 Contribution to Knowledge/Literature**

The study contributes to literature in five ways. First, it discusses the nuances and mechanisms through which productive government spending can lead to job creation through investments in infrastructure. The study contributes to how Ghana can make good use of the public financial resources to create jobs.

Second, this study contributes to the endogenous economic growth theory by explaining the underlying home grown policy prescriptions for achieving growth in job creation. The researcher argues that job creation from the perspective of the endogenous growth theory, is not a spontaneous by-product of fiscal discipline alone, but the pursuit of dedicated set of economic policies to correct the structural, fiscal and economic imbalances of the Ghanaian economy. Thus, the study contributes to the design of a home grown policy that will drive the economic development agenda of Ghana. It thus contributes to our understanding on how an inclusive home grown policy can lead to job creation and reduce reliance on foreign aid and borrowing (Amadi, 2012).

Thirdly, the study contributes to literature by employing a “two-pronged” approach to the study of fiscal discipline through prudent government spending and structural policies to free up more fiscal space to create more jobs.

Fourth, the study contributes to literature by explaining the key aspects of government expenditure which leads to job creation (Blöchliger and Nettley, 2015). The study indicates that investment in infrastructure should be prioritized since it creates the enabling environment for job creation.

Fifth, one of the key contributions of this study is providing policy makers with significant insight into how fiscal rules theory and Ghana’s fiscal performance interact and how the Washington and Beijing Consensuses have influenced Ghana’s economic development paradigm with its effect on fiscal discipline and job creation. This would be useful in planning the adoption of a future fiscal policy framework for Ghana. In this regard, the study examined the strengths and weaknesses of the Washington and Beijing Consensuses with a view to advocating for a home grown policy that lends itself to structural reforms and contributes significantly to job creation in Ghana.

Finally, the study contributes to literature and deepens our understanding of how government can utilize effective tax policy to mobilize more domestic revenue to curtail borrowings from both the international and domestic markets.

### **1.8 Scope and Limitations of the Study**

The study focused on the impact of fiscal discipline on job creation in Ghana. The thrust of research specifically investigates the extent to which government would implement sound fiscal policies and programmes including reducing its spending, budget deficit and borrowing to boost its revenue mobilization. Others include political commitment, the use of fiscal institutions to effectively manage public debt and implement home grown policies to create jobs. This study also critically assessed the Washington and Beijing Consensuses and their impact on fiscal discipline and job creation in Ghana.

A research of this nature cannot be without problems.

One of the most fundamental issues affecting all data on fiscal policy and by extension, fiscal discipline related to endogeneity. However, in this study steps were taken to address potential endogeneity problems by ensuring that data was collected from a wide variety of sources (Cloyne, 2013). To avoid simultaneous bias, general-to-specific modeling (GETS) was used for the study. After selecting the independent variables, additional endogenous variables were required for instrumental variables estimation. One other strategy used by the researcher for addressing potential endogeneity bias was to use instrumental variables to identify sources of variation that could not have probably been caused by the outcome of interest, nor were associated with other factors or variables apart from the independent variables (Schafer & Kang, 2008).

This study made use of an empirical set-up to address endogeneity problems by checking the robustness of the results of the study using instrument variables. A possible concern regarding the analysis is that the probability of fiscal discipline is influenced not only by past job creation policies but also by expectations of future growth (IMF, 2016). However, this is unlikely to be a major issue, given the long lags associated with job creation in Ghana and that any information relating thereto about future growth is likely to be largely embedded in past economic activity. Most importantly, controlling for expectations of current and future growth (to address potential reverse causality) delivers results that are very similar to and not statistically significantly different from the reported position.

The fundamental assumption underlying the ARDL is that data should be collected over a long period of time for it to achieve its impact. However, this problem was addressed by the fact that the data taken for the study was long enough to obtain findings that can be generalized. As such, this weakness did not seriously affect the findings of the study because of the predictive power of the ARDL model.

## **1.9 Definition of Key Terms**

**1. Fiscal management** refers to the implementation of policies to maintain fiscal discipline (Dafflon, 2012). According to Dafflon (2012), fiscal management comprises the totality of policies meant to stabilize an economy and includes how government manages its budget and fiscal cycle over the long-term.

### **2. Fiscal Discipline**

Fiscal discipline is defined as the ability of a government to reduce its spending, increase revenue as well as manage its debt in an economy (Schick 2000).

**3. Ghana Beyond Aid Programme** is a term used to describe the implementation of one of Ghana's home grown economic policies aimed at reducing dependence on external loans and aid.

**4. Washington Consensus** refers to a set of 10 economic policy prescriptions for reforming the economies of developing countries.

**5. Beijing Consensus** refers to China's economic development model as an alternative to the Washington Consensus for developing countries and it involves experimentation, innovation and non-prescriptive mode of economic development.

**6. Job Creation** refers to a range of interventions that focus on direct short or long-term job created by state or the private sector, or the process by which the number of jobs in an economy increases. Job creation often refers to government policies intended to reduce unemployment.

## **1.10 Organization of Dissertation**

The study is organized into five chapters.

### **Chapter One: Introduction**

This is the introductory chapter and focuses on the background to the study, states the research problem,

objectives of the study, research questions, significance and scope of the study and organization of the study. It provides the motivation for the study, its rationale and the basis for the remaining chapters of the dissertation.

### **Chapter Two: Literature Review**

Chapter two deals with literature review and discusses theoretical and empirical literatures. The literature review is structured along three thematic headings namely, the theoretical and conceptual framework as well as the empirical literature. The empirical review is an evaluation of existing studies by renowned scholars and economists in the field of fiscal discipline and economic growth. Based on the theoretical and empirical reviews, a conceptual framework is developed to guide the study as well as test the hypothesis.

### **Chapter Three: Research Methodology**

Chapter three focuses on the research philosophy underpinning the dissertation and its paradigm. It reviews the post-positivist deductive approach for conducting research through the use of econometric cross-sectional, general-to-specific model and ARDL to examine the relationship between fiscal discipline and job creation.

### **Chapter Four: An Empirical Analysis of the impact of fiscal discipline and job creation in Ghana**

Chapter four presents the results and empirical findings of the study and also discusses the theoretical and practical implications of the study

### **Chapter Five: Summary of Findings, Conclusion and Recommendations**

The chapter focuses on summary of findings, conclusion, specific recommendations as well as directions for further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The review of literature was intended to build theoretical and empirical foundations for the study by understanding the connecting theoretical perspectives and existing findings on the research problem (Leedy & Ormrod, 2005). Numerous scholarly literatures have been written by authors from varied backgrounds on fiscal discipline and job creation and with specific reference to the Washington and Beijing Consensuses. The reviews have been structured, assessed and logically synthesized to support the data of the study. This helped the researcher to place the study in the appropriate theoretical framework.

The literature review for the study focused on extensive reading and scanning of relevant materials to assess the diverse ways in which fiscal discipline can impact on job creation and various methodologies for measuring job creation (Mouton, 2007). The sources of literature consisted of the World Bank studies on job creation in Ghana, the Ghana Statistical Service surveys on job creation in Ghana, international journal articles and local journal articles on fiscal discipline and job creation. Other types of literature reviews included books on fiscal discipline and job creation. According to Petticrew & Roberts (2006), traditional reviews of literature for the study are the most suitable ways of scanning relevant literature for a study.

The review of relevant literature connected to this study was done from international and local backgrounds and was organized into major sub-sections to permit adequate analysis of the various layers of literature. The first sub-section focuses on the theories of fiscal discipline and job creation. The second sub-section deals with the conceptual framework pertaining to the research and operational definition of the various constructs. This is followed by a review of empirical literature on fiscal

discipline and job creation, its advantages, constraints and challenges. A number of scholarly literatures have demonstrated the inseparable link between fiscal discipline and job creation in which several authors considered fiscal discipline as a necessary condition for achieving job creation. However, most of the authors tended to base their analysis on advanced and transitional economies. This leaves much to be researched on how fiscal discipline can impact on job creation in a developing country such as Ghana.

## **2.2 Theoretical Orientation and Conceptual Framework**

A number of theories have been used by researchers to examine the relationship between fiscal discipline and job creation. This study made use of four complementary theories such as the dependency, fiscal rules and endogenous economic growth theories. These theories have been applied in both developed and developing economies to study the relationship between fiscal discipline and job creation.

The theories were selected mainly because of their ability to explain fiscal policy, fiscal prudence, fiscal discipline and their interactions with job creation and more importantly how they influence each other. In particular, the theories draw some parallel relationships on the various channels through which fiscal discipline influences job creation.

First, government invests in huge infrastructural projects in a bid to create jobs by increasing the level of capital.

Second, government spending can be altered by budgetary institutions that place fiscal rules on the spending behaviours of the government. The relationship can be positive or negative depending on the level of support government receives from these fiscal institutions.

Third, another mechanism through which government spending influences job creation is the deliberate policy by the government to focus more spending on strategic sectors in an economy such as agriculture and manufacturing that have potential for creating more jobs (Agenor, 2007).

The theoretical framework for the study explains fiscal discipline and job creation in a complementary and interrelated manner. These theories are used for the study based on the interconnections existing amongst them and given the fact that fiscal discipline and job creation are multi-dimensional constructs and no single theory will be able to explain them. More importantly, the relationship between fiscal discipline and job creation from the perspective of the Washington and Beijing consensus require a combination of conventional theories of development, and related or alternative development theories to generate new meanings, perspectives, and ideas to analyze the fiscal discipline and job creation nexus.

The dependency theory investigates fiscal discipline and job creation and how the implementation of the Washington consensus in the 1980s and the emergence of the Beijing consensus in the 1990s have impacted on job creation in Ghana (Bohn, 2008). First, the theory of dependency posits that as a result of dependency on developed countries and economic policy prescriptions, Ghana is underdeveloped. The theory underscores the fact that one of the main ingredients for achieving growth and job creation is for government to be fiscally disciplined so that it can reduce its dependence on its Development Partners. The first two theories used in this research are based on government expenditure; the third theory sets constraints and limitations on government spending.

Lastly, the endogenous economic growth theory is introduced to explain the relationship between fiscal discipline and job creation through the adoption of inclusive homegrown policy that boosts foreign direct investments and local content. The theoretical literature therefore combines contemporary studies on fiscal discipline to assess the impact of both the Washington Consensus and

Beijing Consensus on job creation. A discussion of the various theories used for this study has been presented below:

### **2.2.1 Dependency Theory**

Dependency theory is one of the theories that seeks to explain why there are two fundamental economic development contexts; developed and developing countries in the world. The theory has its roots in neo-Marxism. Hans and Raul (1949) developed the theory of dependency and opined that the underdevelopment of developing countries can be attributed to the economic policies and programmes pursued by governments in their various countries that had a negative impact on trade and argued that one of the crucial prerequisites for achieving sustainable economic development is for the governments of developing countries to pursue protectionist policies.

The dependency theory was reviewed by Baran (1957), Santos (1971) and Frank (1971). The theory sought to explain the inequality in development between the developed and developing countries (Prebisch, 1971). According to the dependency theory, there are two forms of development that can be categorized as ‘the core and the periphery’. The core represents developed countries whilst the periphery refers to the developing countries. The dependency theory considers development from the point of view of exogenous forces having effect on the periphery. As far as the dependency theory is concerned, capitalism refers to a world system that has an intrinsic core-periphery duality or “metropolis-satellite” concept (Frank, 1971) that influences the economic development of various countries. Dependency connotes a situation whereby some countries rely on others for trade, capital, technology and overall development of the others (Valenzuela and Valenzuela, 1978). In this regard, development can be construed as a parasitic relationship in which the “core benefits more than the periphery.”

The dependency theory, moreover, looks at exploitation through transfer of resources from the periphery to the core by uneven representation at the world market (Emmanuel, 1972). The core amasses its wealth by exploiting countries in the periphery. Terms of trade have not been favourable for developing countries. The unfair trade terms serve to drain the trade surpluses of the developing countries and thus prevent them from acquiring capital (ILO, 2004).

The theoretical argument is that exploited resources from the periphery would be mostly sent to the developed countries, processed into finished goods and sent back to developing countries.

Dos Santos (1971) redefined dependency as a relationship between two countries in which one country dominates the other. In more technical terms, it is a relationship in which one or more countries exert influence on the other country when the advanced countries can progress while the other states (the periphery ones) can pursue development only as a reflection of expansion. He added that the relationship between developed and emerging economies is uneven because the development of the advanced countries takes place at the expense of the developing countries (Alvin, 1990).

The uneven and imbalanced relations between developed and developing countries are due to a number of factors. Firstly, the developed countries have a complete monopoly over markets and trade relations with developing countries (Alvin, 1990) and this has negatively impacted on the export of most developing countries. As a result, most of the exports from the developing countries are raw materials and commodities with no value addition which is sent to the developed for manufacturing and are sent to the developing countries subsequently at higher prices. The lack of control over the manufacturing sector and innovation and access to credit put developing countries in a disadvantageous position to perpetually depend on the developed countries for survival.

In addition, the developed countries have their sectorial policies and programmes well linked to the overall economy such that a growth in one sector of the economy can trigger another or corresponding growth in the other sectors of the economy. Unfortunately, due to poor planning and structural imbalances, a growth in one sector of the economy has no spill-over effect on the other sectors of the economy. Besides, there is spill-over effect in the advanced economies, thus the expansion in one sector has a direct and positive impact on the other sectors, while the expansion of one sector in the developing economies has very limited bearing on the other sectors which tends to undermine comprehensive development in the periphery. The direct result is the lack of development of internal markets, technical as well as socio-cultural capacities of the dependent countries.

Frank (1950) identified colonialism as one of the underlying factors that explains the underdevelopment and dependency of developing countries on the developed countries. Secondly, he attributed the underdevelopment of developing countries to the lack of modern technology (Alvin, 1990). The third factor is lack of capital for infrastructure projects. These structural challenges, coupled with colonialism, make it difficult for the developing countries to distance themselves from the developed countries. In a critical look at the governance system and structures, it can be observed that roads and railways of developing countries were designed, molded and developed to suit the developed countries. The fourth factor that accounts for the dependence of developing countries on developed ones is the presence of technology and favourable trade terms. Most of the trade arrangements favour the advanced countries. Advanced countries employed military power, manufacturing technology and capital to dominate and control the developing countries during the colonial era and that has contributed in no small measure to the reliance on developed countries.

A key characteristic of the dependency theory is that it is highly diverse, whilst its membership is drawn from multiple disciplines such as social sciences and focuses on various countries in Africa. Ghana as well as many other countries share common features and assumptions as have been enumerated below:

- Dependency is a peripheral condition
- The world economic system is made up of two states, namely the cosmopolitan centre and peripheral states serves as buffer zones.
- Since most developing countries do not have better trade terms with their developed counterparts, they generally suffer from poor trade arrangements
- Dependency is a common feature of regional polarization of the global economy that tends to undermine the development of developing countries
- Dependency is not synonymous with economic development. Consequently, there is no possibility for development to take place within the periphery with the persistent flow of surplus to the centre

### **2.2.2 The Foundations and Principles Underpinning the Dependency Theory**

According to the Economic Commission for Latin America and the Caribbean (ECLAC), proponent of the dependency theory contends that developing countries must create the necessary conditions for economic development to take off. Raul (1949) recommended that, that country must pursue political and economic policies aimed at creating the “conditions of development” of which some of them have been discussed below.

- Re-emphasize fiscal policy instead of monetary policy
- Promote capital nationalism where the government is given a leading role to play.
- To create a platform of investments, giving a preferential role to national capitals;
- To use foreign direct investment to attract external capital and technology to aid development
- To create domestic market as the basis of industrialization

- To increase the salaries and wages of workers in a bid to boost aggregate demand of domestic market
- The government should provide social interventions to reduce poverty and create jobs.
- To develop home grown policies based on import substitution model to protect infant local companies (Bodenheimer, 1970).

Dependency theory contends that the IMF and the World Bank policies and programmes have played critical roles in extending the level of dependency by developing countries on the advanced countries.

Cardoso (1977) described this form of dependency as dependent-associated development where “there can be development and dependency and that there exists a more dynamic form of dependence than those characterizing enclave or quasi-colonial situation. He argued that external conditions and internal conditions should be taken into account when discussing the dependency theory and its effect on developing countries. Even though colonization could play a role in the underdevelopment of most developing countries, the format of dependency that works in the modern era is the one that benefits both the developed and developing countries. Arguably, some national bourgeoisies of the dependent societies are potentially powerful and capable of shaping development. Similarly, the role of the government in the modern day economy is significant and the pursuit of both fiscal and monetary policies influence economic outcomes of a country. In this context, it is too narrow for the underdevelopment of developing countries to be ascribed to the external conditions alone but must consider the internal conditions such as government spending, revenue mobilization, the tax policy and how well monetary policies are utilized to curb inflation.

### **2.2.3 Structural School of Thought**

Structuralism is one of the approaches emerging from the dependency theory in the 1950’s. Its initial application was focused on Latin America but subsequently was applied in most developing countries.

Proponents of structuralism underscore the need to embark on economic transformation in order to add value to the raw materials we produce and by so doing move from an agrarian economy to an industrialized one that could provide jobs (Teignier, 2018). According to the IMF (2013), economic growth and job creation are supported by changes in the structure of the economy. It is important to modernize agriculture to feed the industry (Leiva, 2008). Stimson and Stough (2009) asserted that, government should partner with the private sector to create a number of industries and allocate resources to achieve optimal economic growth (Jayanthakumaran, 2016). The structuralism approach to economic development revolves around import substitution, industrialization and protection of infant industries in the domestic market. The structural approach also acknowledges the role of the government in planning the state, particularly in terms of how it can create an enabling environment for businesses to thrive (Stiglitz, 2007). Finally, they believe in an active export orientation, promotion of value added products and services as well as training of local firms to improve their skills.

#### **2.2.4 The Neoliberal School of Thought**

According to Rodrik (2004) the neoliberal dependency theory relates to economic development that entails the active involvement of the private sector and a passive role of the state. This approach was pioneered by John Williamson (1989) through the development of ten principles known as the Washington Consensus. These principles include fiscal discipline, privatization, deregulation of the market, free trade, floating exchange rate, among others (Skidelsky, 2010). However, neoliberalism approach did not focus on poverty alleviation but rather, improved macroeconomic stability (Murray and Overton, 2011). Even the macroeconomic target was not achieved in most cases (Leiva, 2008).

Reiner and Staritz (2013) argue that “free markets would deliver better results than socialism and that the private sector is the engine of growth in an economy. Harvey (2005) contended that “neoliberalism

is a theory of political economic practices that proposes that, for more jobs to be created to aid in human well-being, private sector should play a leading role in the economy.

Indeed, proponents of neoliberalism hold the view that entrepreneurship and innovation is the cornerstone of job creation (Chant and McIlwaine, 2009). A key tenet of the neoliberal approach is the implementation of the Structural Adjustment Programmes in developing countries in the 1980s by the IMF and World Bank. Another key aspect of neoliberalism is competition which was meant to boost productivity.

### **2.2.5 Interdependence School of Thought**

The phenomenon of contemporary Sino-African engagement, which underpins dependency, is the basis of the Chinese development model. It is opined that China - Ghana relationship suggests a case of growing interdependency. In effect, Chinese statism is also entrenched in dependency theory (Alden et al, 2008).

“The Chinese policy in Africa is driven by economic diplomacy and a business-like relationship with minimal political interference, allowing the pursuit of arrangements aimed at producing mutual benefits (“ A reincarnation of dependency theory”, Moyo, 2009).

### **2.2.6 Application of Dependency Theory**

The dependency theory could be applied in the context of Ghana to explain why Ghana has not created sufficient jobs even though it has relied heavily on its development partners for loans, aids and grants. The underlying argument is that Ghana’s trade partners are regarded as core states while Ghana is at the periphery. This center-periphery relationship is a major source of opportunity or disadvantage to the developing countries.

Most of Ghana’s development partners such as the World Bank and IMF, the European Union and China’s working partnerships can be understood within the context of the dependency theory. Most of

the loans extended to Ghana by the IMF and the World Bank are tied to conditionalities making it difficult for Ghana to take advantage of foreign loans and aids to stimulate economic growth.

Moreover, the developed countries have economies well noted for manufacturing for exports in the world market. This increases their purchasing power and offers them some competitive advantage over Ghana. Both the United States and the Chinese economies for example enjoy favourable trade terms by reason of the dependency prescription. More importantly, the role of the developing partners must be looked at from the interaction at the centre and to examine the extent to which it creates opportunities for growth and development.

The Ghanaian economy is typically an agrarian one and exports primary products with its National budget and development projects financed by the IMF and the World Bank, China and other developed countries. This implies that where the level of dependency is high, for example where Ghana has borrowed from the IMF and the World Bank, economic prescriptions and policies are tied to programmes.

On the contrary, the Chinese alternative approach often referred to as the Beijing consensus offers another dependency model that fosters growth of the Ghanaian economy not through conditionalities but through technology, experimentation and self-determination. Chinese trade, investment, loans, debt cancellation and technical assistance to Ghana would be examined as to whether it is creating dependence or opportunities for Ghana to boost job creation.

Finally, Chinese investment in Ghana over the years were also assessed to see if it has created the conditions of dependency or development. The dependency theory thus broadens our understanding of how development is viewed from either the Washington Consensus which has always emphasized

economic growth and development from the centre; or through the Beijing Consensus which looks at economic growth and development from the periphery.

### **2.2.7 Criticism of the Dependency Theory**

Dependency theory has been criticized on a number of grounds. Firstly, classification of the world into core and periphery interaction has failed to explain the complexities of the world economy. Similarly, underdevelopment of the developing countries cannot be attributed to the external conditions and policy prescriptions imposed on the developing countries alone. Rather, the argument should be extended to assess the role of the government and the economic policies pursued to create jobs and expand the economy, address issues of corruption, fiscal indiscipline and political instability. In spite of these limitations, the dependency theory is still relevant today to explain the relationship between the developed countries and developing countries in terms of borrowing, aid and trade terms.

### **2.3 Theoretical Arguments underlying Dependency Theory and its impact on Fiscal Discipline and Job Creation**

One perspective of fiscal discipline and job creation relates to the dependency theory. According to this theory, unemployment and poverty cannot be explained unless the relationship between dominant “core” or “centre” industrialized countries and the subordinate “peripheral” developing countries is understood. Dependency connotes reliance of one economy on the other for loans, aid and overall well-being. According to Dos Santos (1971) one cannot appreciate economic development in developing countries “only from the perspective of dependent production”. Rather, the approach to development must be viewed within the context of relations between countries rather than looking at the economic policies alone.

This has been one of the many criticisms cited against the World Bank and IMF. The implementation of the structural adjustment programmes in Africa and Ghana for that matter was based on economic

policies rather than improved trade relations. The inconsistencies and conditionalities attached to loans led to high doses of fiscal deficits. Williamson (2004) stated that the implementation of Washington Consensus resulted in lower GDP, higher deficit, mass unemployment and inequality. What was more; countries that received debt relief through Highly Indebted Poor Countries (HIPC) Initiative did not improve their debt burdens, job creation in any appreciable way.

Using the dependency theory, the questions on how developing countries can achieve development must be understood differently from comparative advantage import /export strategies.

One of the key arguments in support of the developed countries is built around a model consensus of growth which utilizes universal application of very unequal colonial relationships from the West. Dependency theory assumes the position that market alone is not a good distributive mechanism.

Also, the dependency theory posits that the market considers productivity, and does not use economic growth or GDP as indicator for measuring the welfare of an economy. The dependency theory advocates that for inclusive development, so that due regard is given to education, life expectancy, literacy, infant mortality, education, etc. Put differently, the focus of dependency theory is on social indicators as opposed to economic indicators.

Similarly, developing countries should attempt to pursue policies of self-sufficiency. Contrasted with the neo-classical models prescribed by the International Monetary Fund and the World Bank, greater integration into the global economy is not necessarily a good choice for developing countries. Often this policy perspective is viewed as an endorsement of a policy. A typical example is the Beijing consensus which focuses on technology, self-determination and experimentation. The failure of the policies espoused by the Washington Consensus is a clear manifestation of the failures of the fact that neither fiscal discipline nor job creation was achieved. This is not good for the development of Africa

and Ghana for that matter. In this direction, home grown policies must be interpreted and endorsed only if it interacts with world economy to improve the socio-economic dynamics of its citizens.

#### **2.4 The Relevance of the Dependency Theory to Ghana**

Dependency theory is relevant to the Ghanaian economy when the issues of fiscal discipline and job creation are being assessed. Ghana has depended on the IMF and the World Bank for the sustenance of its economy since independence. It has received loans from the IMF and the World Bank. This dependency for loans has left the total debt stock of Ghana at GHC122 billion as at December 2018.

Again, Ghana has received foreign aids and donations from the international community particularly in times of disasters. Due to Ghana's dependency on its developing partners, it is likely to attract economic sanctions when its trading does not go on as planned. More importantly, there is movement of capital from Ghana to the United States and China as most of its exports are challenged to the developed countries. As a result of unemployment in Ghana, most professionals such as engineers, doctors and teachers travel to the developed countries to seek greener pastures and this contributes to underdevelopment of Ghana.

#### **2.5 The Theory of Fiscal Rules**

The theory of fiscal rules is a recent theory that was developed to help governments meet their inter-temporal budget constraints, check government spending and excessive borrowing. The common pool problem in public finance creates external pressure on public spending and requires concrete measures to be taken by the government to deal with fiscal slippages by reducing the effect of pro-cyclical bias in fiscal management. Proponents of this theory argue that government revenue and expenditure will not be in equilibrium and require adjustment of the budget in the course of the fiscal year as a result of swings in economic performance (Gali and Perotti, 2003). The use of this theory is justified by the fact that it has the ability to assist policy makers to strengthen economic stability. Kopits and Symansky

(1998) reviewed the theory and examined the relationship between fiscal rules and overall control of government expenditure and sets out the various limitations on budgetary allocations and spending.

Fiscal rules are crucial for controlling government expenditure so that further deteriorations do not occur to derail government's focus on achieving fiscal discipline (Debrun and Kumar, 2007). The fiscal rules are potent mechanisms for addressing the deficits associated with government's budget. This mechanism is extremely important to reconcile the varying stakeholder expectations on budgetary resources leading to the common pool problem. Fiscal rules thus create the enabling environment for economic growth to take off (Holmhadulla et al., 2010). One of the reasons why this theory has gained currency is the limitations it places on government's budget, expenditure cutting and revenue by the IMF and the World Bank thereby stimulating job creation.

The fiscal rules theory explains how government spending could be restrained to achieve job creation. Georgantopoulos & Tsamis (2011) contended that government spending will continue to increase unless there are fiscal rules to restrain government spending. Underlying the fiscal rule theory are the existence of the common pool problems that induce deficit bias which make it sometimes difficult for fiscal policy restrictions to be effected to achieve economic growth because of the presence of procyclicality bias in fiscal policy (Holm-Hadulla, Hauptmeier and Rother, 2010). This provides the theoretical basis for the relationship between government expenditure and cyclical performance (Gali and Perotti, 2003) and requires the utilization of fiscal rules to constrain government from deteriorating macroeconomic stability.

Another assumption is that beneficiaries of government expenditure do not fully account for the cost so that their tax obligations are lower than government spending. The fiscal rules theory holds the view that fiscal indiscipline requires internalization of this externality with fiscal rules and institutional coordination of fiscal policy (Kopits, 1995).

Similarly, the fiscal rule theory is rooted in social norms and the Stability Growth Pact that helps government to achieve reputation and credibility. According to Akerlof (1980) social norms can play a critical role for helping government to achieve fiscal discipline. If the aim of the government is to maintain a good reputation which could be used as the basis for future negotiations, there is the tendency that the government will obey a norm that is not sufficiently helpful, but is the norm followed by previous governments.

Fitoussi and Saraceno (2007) stated that the Growth and Stability Pact is a source of fiscal discipline since it determines the fiscal path and the general economic direction a government within a particular country aligned with that Pact should follow. Issues of borrowing, budget discipline and running a budget deficit are some of the key policies contained in a growth and stability pact. Again, the fear of threats and sanctions from the member state will compel the government to obey the norms of fiscal discipline. According to Akerlof (1980) fiscal discipline is viewed as a social norm when it becomes an incentive for enhancing social welfare and economic well-being. Also the argument of the stability and growth pact form the basis for using fiscal discipline as a social construct to explain why governments adopt procyclical policies in times of low economic growth (Heipertz and Verdun, 2004).

## **2.6 Theoretical Arguments for Fiscal Rules**

A number of arguments have been advanced to explain the relationship between fiscal rules and growth through macroeconomic stability. This creates an enabling environment for business to thrive to facilitate job creation (Arellano and Hernández 2006). Public investment is assigned a subsidiary role, focused on essential infrastructure and services. This is the view traditionally espoused by the International Monetary Fund (IMF) (Kopits and Symansky, 1998), Cooperation and Development (OECD, 2014) and the (World Bank, 2015). Fiscal rules indicate government's commitment to medium-term macroeconomic stability (Bergman et al., 2013). The emphasis is on how to achieve

policy credibility and sustainability and not how public investment and jobs can be created (Roy et al., 2006). Fiscal rules are thus a kind of commitment and necessary conditions for binding policymakers to balance their budget otherwise they will be tempted to spend more.

Strawczynski (2014) noted that elected governments face the “common pool problem” and in effect is akin to spending decisions involving the principal and agent relationship. This is a main source of pro-deficit bias as government has to mobilize resources to implement social projects to appease voters (Patel, 2010).

Similarly, the electoral cycle can entice the government in power to overspend during elections (Mohan, 2014). In order to satisfy the various interest groups, government embarks on rent-seeking behaviour (de Barros Lisboa and Abdel Latif, 2013). The existence of many of such groups could impact significantly on government expenditure and serve as a drain on the public finances (Tornell and Lane, 1999). In this regard, fiscal rules regarded as tools to bind government to be prudent in its spending.

Another critical pillar for the use of fiscal rules is to foster and transparency and accountability (Blöndal et al., 2009) and an essential part of the budgeting process meant to check corruption and embezzlement of funds. Fölscher (2006) contended that usually there is weak parliamentary oversight of the budgeting process.

Additionally, a major argument for the use of fiscal rules is to achieve fiscal and economic convergence in currency unions such as the European Union and its Stability and Growth Pact. Fiscal rules have the tendency to help the government to set fiscal targets in such a way that it does not misjudge economic growth and fiscal performance (Gollwitzer, 2012). Fiscal rules can also compensate for the external risks and shocks emanating from financial and capital markets: Kawai and

Morgan (2013) stated that the focus of fiscal rules should not be on cutting down expenditure but should serve a valuable tool for expanding the tax base in developing countries.

### **2.6.1 Types of Fiscal Rules**

Essentially, there are four types of fiscal rules and these are budget balance rules, debt rules, expenditure rules, and revenue rules that restrict government spending and enables it to achieve fiscal discipline.

### **2.6.2 Budget Balance Rules**

Budget rules are put on government so that it operates within the budget. In most developing economies such as Ghana, supplementary budgets are designed and spent alongside the main budget. This affects government expenditure and throws the budget out of order. Budget rules are meant to check government spending so that the overall fiscal deficit is narrowed.

### **2.6.3 Debt rules**

Debt rules are important indicators of the ability of a country to pay its debt and it is expressed as a percentage of GDP. However, when a country's debt is below say 70%, it is no longer regarded as serious. Nonetheless, it provides the basis for restraining government borrowing to achieve debt sustainability.

### **2.6.4 Expenditure Rules**

The goal of expenditure rules is to set permanent restrictions on total, primary, or secondary expenditure as a percentage of GDP. They are indirectly linked to debt sustainability but are key indicators for fiscal consolidation.

### **2.6.5 Revenue rules**

Revenue rules set maximums so that tax revenue can be collected. Revenue rules have indirect links with public debt. Setting revenue rules can sometimes be difficult since it fluctuates with the business cycle. Schechter et al (2012) stated that revenue rules can induce procyclical fiscal policy, as the restrictions run counter to the automatic stabilizers in an economy. As such, revenue rules can affect the size of government.

The implications of these rules are that they affect the way fiscal policy influences market volatility and shocks. The rule of thumb is that a country combines two or more rules to restrict government spending, manage debt and mobilize tax revenue. Rules check the discretionary expenditure of the government and make it spend prudently. A cyclically adjusted rule permits the complete use of automatic stabilizers but restricts discretionary fiscal stimulus. Similarly, expenditure rules relate to cyclical and discretionary decreases in revenues, without permitting discretionary spending incentive.

## **2.7. The relevance of the fiscal rules theory for achieving Fiscal Discipline**

The relevance of the fiscal rules theory in recent times relates to fiscal institutions and how government will be able to restrain spending to achieve macroeconomic stability. To this end, the fiscal responsibility law is gaining currency as a tool to coordinate fiscal policy, enhance fiscal prudence and to ensure that government's expenditure is controlled. This law offers some legal backing for meeting fiscal targets and this will reduce fiscal deficits and encourage economic growth. Lack of political commitment and leadership has always been one of the reasons for excessive government spending outside the budget (Poterba and Hagen, 1999). The existence of fiscal institutions to reinforce fiscal rules improves fiscal performance and contributes to achieving fiscal discipline, accountability and transparency in fiscal policy management.

Fiscal discipline then becomes a by-product of the implementation of effective policies and programmes to check fiscal performance in order to sustain macroeconomic stability and reduce

vulnerabilities. According to the theory, the lack of fiscal discipline generally stems from the injudicious use of policy discretion and that fiscal rules must be used to help governments to respond to externalities and shocks. The fiscal rules theory holds the view that a combination of institutional approaches, fiscal rules and law can help to promote fiscal discipline.

## **2.8 Criticisms of the fiscal rule theory**

A number of criticisms have been leveled against the fiscal rules theory. First, fiscal rules are subjective and non-contingent constraints on government spending (Kydland & Prescott, 1977). For instance, Simarmata (2007) argued that the fiscal rules imposed on the Indonesian government by the IMF and the World Bank are arbitrary as the targets did not reflect the economic performance. Similarly, other authors contend that it is difficult to forecast our gap using fiscal rules (Burger and Marinkov, 2012).

Gollwitzer (2012), Sharma and Strauss (2013) established that fiscal rules alone do not have any significant impact on government spending unless they are used in conjunction with other tools of fiscal policy. Asaju et al. (2014) demonstrated that the use of fiscal rules does not take into consideration, monetary policy goals of reducing inflation, economic stability and employment.

Fiscal rules unreasonably squeeze public investments, government spending and the transfer of funds for social interventions. Dahan and Strawczynski (2013) conducted a study in the OECD countries and their findings revealed the use of fiscal rules have the tendency to reduce government expenditure in the areas of poverty alleviation, gender inequality and employment. According to Masood Ahmed and Ammad Ali (2014) public investments drive growth, creates jobs and helps the private sector to grow.

Fiscal rules are oftentimes pro-cyclical and therefore tend to reduce government expenditure during recessions whilst restraining government expenditure when the economy is performing well. This development has been developed in both developed and developing countries (Wyplosz, 2012) and

(Daude et al., 2011; Bova et al., 2014; Klemm, 2014). In particular, Gupta and Ylaotinen (2014) observed that in developing countries, fiscal objectives are not met because it does not incorporate the business cycles.

Lastly, Schächter et al. (2012) conducted a study to examine the relationship between fiscal rules and fiscal performance and came to a conclusion that fiscal rules restrain the gains of fiscal consolidation.

## **2.9 Theoretical Approaches to Fiscal Discipline**

The causal relationship between tax revenue and government spending has remained an empirically controversial issue in public finance literature. Over the past three decades, a large number of studies have investigated the relationship between tax revenue and government spending. This is not surprising given the importance of the subject in public economics, since in particular the direction of causality has important implications for government budget deficits. The experiences of both developed and developing countries in the past decades have shown how government budget deficits have had a significant impact on the economies. Such an imbalance tends to reduce national savings and economic growth. Therefore, it is expected that a decrease in budget deficit triggered by reducing government spending and/or rising revenue would stimulate economic growth. This reality has made the relationship between government spending and government revenue one of the most interested topics in public finance. Determination of the interdependent direction between these two variables would assist policy makers to recognize the source of any fiscal imbalances that might exist. Consequently, this would facilitate efforts to develop a suitable strategy for future fiscal reforms. In a word, analyzing the relationship between government spending and government revenue has attracted significant interest in the literature. However, it has remained an empirically controversial issue in the field of public finance, especially for developing countries (Petanlar & Sadeghi, 2012). Establishing the long-term relationship between government spending and tax revenue would assist policy makers to trace

any source of fiscal imbalances in the economy (Aregbeyen & Ibrahim, 2012). Identifying the form of the relationship between government revenue and government spending is of vital importance for policy makers or governments who desire to take appropriate policy measures to reduce budget deficits. If there is a bi-directional causality running from government revenue to government spending, its implication is that to attack the problem of continuously increasing budget deficits, the government should be cautious, as simply raising revenue, cutting spending, or simply changing both sides without taking into account the interdependence between the two may be ambiguous in their impact on fiscal situations.

On the other hand, if there is uni-directional causality running from government revenue to government spending, higher taxes will lead to widening rather than reducing budget deficits; and raising taxes in order to cut budget deficits only result in an increase in government spending. This means that lower deficits which require lower taxes and tax hikes, by means of reducing budget deficits, may not be a viable option. However, it is possible that an increase in taxes combined with spending cuts will lessen budget deficits. In contrast, if there is a uni-directional causality running from spending to revenue, a spending restraint is required to reduce government deficits and reducing spending should be the optimal solution to the current budget deficits (Wolde-Rufael, 2008)

The causal relationship between government revenue and government spending is an important issue for fiscal policy. In the literature some scholars and researchers use government revenue, while the others use tax revenue. In this study both of them have been taken into account. There are four hypotheses that explain observed spending-tax revenue behavior: The first hypothesis argued Friedman (1978) is the tax-and spend which contends that raising taxes will simply lead to more government spending. According to this hypothesis, government revenue changes government spending. In other words, there is a unidirectional causality between tax revenue and government spending which runs

from tax revenue to government spending. Friedman (1978) implies that when tax revenue increases, government spending also increases, which leaves the budget deficit unchanged. Friedman (1982) puts across his point, by saying that tax-and-spend cannot reduce the deficit by raising taxes. Increasing taxes only results in more spending, leaving the deficit at the highest level conceivably accepted by the public.

Political rule number one is government spends what government receives plus as much more as it can get away with.” This means that if revenue is raised, then government increases its spending. Hence, according to Friedman (1978), cutting government revenue is a remedy to reduce budget deficits. Moreover, putting a limit on taxation is essential so as not to enlarge the size of government. On the other hand, Buchanan & Wagner (1978) share the same view that taxes give rise to government spending, but the direction of the causal relationship is negative. Their point of view is that with a cut in taxes the public will perceive that the cost of government programs has fallen. As a result, they will demand more programs from the government that if undertaken will result an increase in government spending. Higher budget deficits will then be realized since tax revenue will decline and government spending will increase. Their remedy for budget deficits is, therefore an increase in taxes (Mehrara et al., 2011).

Buchanan & Wagner (1978) also warned that the tax and spend prediction may be distorted due to the fact that changes in tax rates are accompanied by intense political debate and controversy over economic impact and income distributional issues. Deficit financing rather than tax financing may then become the source of growth in spending (AbuAl-Foul & Baghestani, 2004). This hypothesis suggests that spending should be controlled and reduced to the level of revenue. In that sense, a country with a persistent budget deficit should not rely heavily on taxation, as it could jeopardize growth. The second hypothesis is the spend-and-tax which suggests that any change in government spending causes

changes in government revenue and thus infers a uni-directional causality that runs from government revenue to government spending.

This hypothesis was asserted by Barro (1979) and Peacock & Wiseman (1979). They claimed that government spending changes government revenue. According to the spend-and-tax hypothesis, government first increases its spending and then resultantly increases its revenue. Peacock & Wiseman (1979) put forward the notion that economic and political uncertainties would justify the reverse fiscal policy for spending and would subsequently hike taxes. In effect, a temporary increase in government spending would raise taxes permanently. In essence, it equates to the Ricardian equivalence theorem assuming an absence of fiscal illusion (Hong, 2009).

## **2.10 Endogenous Economic Growth Theory**

The endogenous economic growth theory provides an understanding of how economic growth can be achieved through the interactive mechanisms of savings, investments, capital formation and technological advancement. There are several different set of authors who contributed to the development of the endogenous economic growth theory. The first one dates back to the early 1901 to 1978 by Sir F. Harrods and E. Domar. His theory sought to explain the interdependence between savings and investments. The second school of thought on economic growth focused on factors of production and the law of diminishing returns. This was pioneered by Essien (1960) and Woodford (1962). Under this school of thought, marginal cost utility was popularized and embedded in the underlying philosophy where technical inputs such as labour and capital must be considered in the economic growth literature. However, as a result of the inability of the two pioneer economists to provide concrete evidence on what endogenous growth theory meant, other economists emerged and presented their theories as follows:

### **Frankel's (1962) AK Model**

The form of endogenous growth theory developed by Frankel relates to capital and savings in the long run. Frankel (1962) posited that total production can have no diminishing returns provided that part of the capital is used as innovative capital to contribute to technological advancement. This innovative capital may relate to enhancements in organizational growth, the type of labour, and externalities resulting from economies of scale (Frankel 1962).

### **Cass (1965) Endogenous Economic Growth Model**

The central idea in the development of the endogenous economic growth theory relates to determining the feasible or optimal growth path. Developed in 1965, David opined that economic growth theory should focus on maximizing social welfare. The theoretical foundation is based on the argument that consumer goods should be provided. This can only happen when the economy reaches a feasible growth path.

### **Human Capital-Based Endogenous Growth Theories – Lucas (1988)**

Another different school of thought as far as the development of the endogenous economic growth theory is concerned is the human capital-based endogenous theory (Lucas (1988). Lucas indicated that human capital enables the development of special skill for workers to boost productivity. Lucas postulated that human capital has the tendency to improve time, location and production functions that eventually improve capital accumulation.

Despite the plethora of several schools of thought on how endogenous economic growth theory should be, Romer's endogenous economic theory fits into most contemporary works in economics and this thesis argues economic growth theory from that perspective (Romer,1990). According to Romer (1990), knowledge and innovation are viewed as public good. From the perspectives of the endogenous economic growth theory Barro (1999) one of the most fundamental methods for influencing market and labour reforms to positively impact on job creation can be achieved with improvement in human capital and technological advancement.

Generally speaking, the law of diminishing returns does not apply as a result of the introduction of human capital improvement and technological innovation. This makes it possible for output to remain the same even if we increase the inputs. Over the last hundred years, output of developed countries has increased tremendously but the law of diminishing returns did not set in and the endogenous economic growth theory ascribes this to an overflow of knowledge and innovations. One of the most important considerations of the theory relates to how fiscal policy can be strengthened, within the context of the application of technology and human capital development. These two important factors are affected by government's policy. The nexus between the theory and fiscal policy comes from taxation. By influencing tax policy through the reduction of income and profits, fiscal policy determines the behaviour of individuals and companies and this will shape the overall economic activity, including job creation.

Another important mechanism through which the endogenous theory influences an economy is through the efficient functioning of the economy. The endogenous growth theory predicts that fiscal policy changes can affect long growth rate by influencing the determinants of growth; physical, human resources and technological advancements, employments and savings (Hjerpeet al, 2006). The basic proposition underlying the growth theory is that in order to create jobs, there should be continuous advancement in technological knowledge in the form of creating new markets space.

Endogenous growth theory holds the view that that economic growth is mainly dependent on internal variables and not external forces. Endogenous growth theory regards investment in human capital, innovation, and knowledge as critical determinants of economic growth. The theory also focuses on positive externalities and spillover effects of a knowledge-based economy to drive economic development. The endogenous growth theory indicates that economic policy interventions can have

long-run effects on growth of an economy. The use of subsidies for research and development will drive economic growth by creating incentives for innovation.

According to Romer (1994), the long-run growth of the firm is expressed as the rate of labour force growth and technological progress in an economy. The theory looks at growth from two distinct sources, namely savings and economic efficiency. In this regard, fiscal discipline may impact on growth particularly in the long-run. This implies that for a country to grow and develop, there should be fiscal discipline to induce growth and creates jobs. Job creation is a function of the efficient functioning of an economic system (Essien and Bawa, 2007).

From the endogenous economic theory, a key determinant for stimulating economic growth is the ability of government to address the economic fundamentals such as rising inflation and high interest rates. The contemporary economic growth theory therefore emphasizes the fact that in central planning economies, efficiency is achieved through utilization of productive resources whilst in a mixed market economy, productivity tends to increase faster. This implies that whichever economic theory a country adopts does not matter, but what matters is the efficient use of factors of production which are regarded as growth indicators (Romer 1994). Fiscal discipline tends to create jobs when it is supported by increasing GDP and budget surplus.

The endogenous growth theory provides the basis for explaining productive government spending and its overriding effect on job creation. Government contributes to production through the supply of capital to raise the marginal productivity of labour (Tanzi & Zee, 1997). Government policy choices towards economic growth are essential requirements for job creation. Thus, if a government decides to spend productively it has a positive effect on job creation Conversely, if a government decides to borrow and invests in projects with lower rates of return, achieving economic growth could be a mirage (Baah-Boateng, 2013).

According to Serra and Stiglitz (2016), the endogenous economic growth theory is an alternative to the Washington Consensus, which was promoted vigorously by the World Bank and the International Monetary Fund as a set of economic development policies for developing emerging economies. He contended that inclusive, home grown, pro-poor economic policies are necessary to reduce unemployment and to boost economic growth since clearly the Washington Consensus led by the IMF and the World Bank has failed to develop the economies of most African countries.

Mathematically, the relationship between the level of growth, technology, capital and labour can be determined within the model using fiscal policy (e.g., government spending). According to the neoclassical growth model, output is a function of capital and labour, while technology is given:  $Y = Af(K, L)$ , (1) where  $Y$  = output,  $A$  is technology, being exogenous, while capital ( $K$ ) and labor ( $L$ ) are endogenous factors.

In the endogenous growth theory, however, technology is determined endogenously:  $Y = f(K, L, A)$ . (2) Technology ( $A$ ) refers to rate of investment, ( $K$ ) is the investment in capital stock and ( $L$ ) is the human capital. The endogenous model is critical in explaining the role of the government in resource allocation to improve efficiency as well as promote investments to stimulate growth (Ahuja, 2009). The theory explains what is productive spending by the government through investment in power, communication, roads, and highways and in human capital, which promote private investment and generate increasing returns to scale. On the other hand, the use of social interventions and bail outs as well as payment of external debts connote unproductive spending which does not directly lead to economic growth. The endogenous growth theory, in this regard can be said to be an extension of the neoclassical theory. It, however, departs from the neoclassical policy concepts that relate to free market and the flaccid role of government. In other words, the relationship between fiscal discipline and job creation can be endogenously determined (Barro and Sala-Martin, 1992). By using this theory, home-

grown policies can be used to explain job creation, unemployment and poverty alleviation (Cvetanovic et al, 2010).

The justification for the use of this theory stems from the failure of the neoclassical theories to explain the inherent features of economies that cause them to grow over extended period of time. The general endogenous production function is given by the formula:

$$GDP = AK^{\alpha} L^{1-\alpha} K^{\beta} \dots\dots\dots(1)$$

Whereas the aggregate production function given as

$$GDP_t = AK^{\alpha} L^{\beta} \dots\dots\dots(2)$$

Where;

$GDP_t$  = GDP per capita at time (a measure of economic growth).

A = Total factor productivity- a measure of efficiency of factor inputs

K = Capital stock- which is decomposed to into physical and human capital

L = Labour.

The production function from equations (1) and (2) are endogenous, since the residual component, A, which is a measure of technological progress is endogenized;  $\alpha$  and  $\beta$ , represents the elasticity of output to capital and labour, respectively. In empirical terms, the endogenous growth take into consideration the role of international capital flows (reflected in FDI and Aid), investment in human and physical capital, and other policy variables such as trade openness and macroeconomic policy (inflation) as critical ingredients of growth. The basic intuition here is that AID and FDI affect growth via the efficiency with which inputs are used, which among other things, depends on the total factor productivity, TFP, and openness of the economy (OPN).

$$A = (\text{Aid, FDI, TFP, OPN}) \dots \dots \dots (3)$$

Equation (3) states that efficiency with which factor inputs are used depend among other things on the size of Aid, FDI, total factor productivity and openness of the economy. But FDI and Aid can contribute significantly to growth through increase in capital stock, improvements in human capital and advances in technology (Ajayi, 2006). Factors that are likely to affect host country’s absorptive capacity in this respect are macroeconomic (levels of human capital development, openness, inflation)

As pointed out by (Feeny and McGillivray, 2008 and cited by Ekanayake and Chatrna, 2012), a plausibly robust finding of recent studies is that there is an inverted U-shaped relationship between aid and growth. This finding indicates that there are diminishing returns to aid due to recipient countries having absorptive capacity constraints and macroeconomic instability/uncertainties. Absorptive capacity relates to an aid recipient’s ability to utilize foreign aid inflows effectively. In order to take into of this relationship, a square term is added to the model (Ekanayake and Chatrna, 2012; Tiwari, 2011).

Trade openness, aid, foreign direct investment, real domestic capital formation and human capital are expected to have positive impact on job creation, while the coefficient of inflation is expected to have a negative relationship with economic growth. On the other hand, absorptive capacity constraints- captured by square of foreign aid, causes diminishing returns to aid and growth (Tiwari, 2011; Ekanayake, and Chatrna, 2012). The higher the level of domestic investment, the more rapid will be the rate of economic growth since investment increases the capital stock and stimulate aggregate demand. An improvement in human capital (reflected in human capital accumulation) enhances growth through increasing the productivity of the work force.

Thus, the higher the quality of human capital, the higher the rate of economic growth and hence job creation. Inflation is theoretically posited to have an inverse relationship with economic growth. This is because, evidence suggests that macroeconomic stability is crucial for long-term growth as no country has achieved sustained high growth in a persistently high inflation environment (i.e macroeconomic instability).

### **2.10.1 Criticisms of the endogenous economic growth theory**

One of the main criticisms of endogenous growth theory is the assumption of diminishing returns to capital. Economists argue that despite its advantage in explaining job creation, it has proven to be unsuccessful than the dependency theory in explaining the income discrepancy that exists between the developed and developing countries.

### **2.10.2 Theoretical Arguments for the Endogenous Economic Growth Theory**

#### **2.10.3 The Phenomenon of Jobless Growth**

The concept of jobless growth phenomenon, according to Barro (2013) refers to a situation where the rate of an economic growth outstrips the growth of unemployment within the same economy.

#### **2.10.4 Theoretical Arguments for Jobless Growth**

Generally speaking, jobless growth is not a purely macroeconomic problem but rather manifests itself in structural shifts, crowding out of the economy through poor fiscal policy, labour market imperfections and recessions. The theoretical explanation for the phenomenon of jobless growth can be explained from three underlying assumptions postulated by Boeri–Garibaldi, (2004):

First and foremost, excessive spending by the government loosens fiscal policy in an economy such that it crowds out the private sector through increase in interest rate. The presence of high interest rate has the tendency to reduce savings and investments.

Secondly, the crowding-out channel has serious impact on public sector employment. The policy goals for job creation could be different for both the public and private sectors. Since the aim of private sector is to maximize profit, they will not employ a lot of people when the economy is not functioning properly. Conversely, the aim of public sector employment is to provide social services (Borland–Gregory,1999).

Thirdly, government debt brings about steady-state inequality. This implies that when the government's expenditure is high, there is a corresponding increase in taxation. Savers and spenders will have to pay these taxes and will eventually reduce the consumption of the people. These factors account for why in an economy, there would be growth on one side but that growth would not manifest in creating jobs for the many people who need them.

Additionally, there is excess rigidity within the labour market that affects employers' ability to create jobs. Similarly, lack of infrastructure development is another impediment to which contributes to jobless growth in Ghana. Ghana's pattern of economic growth did not follow the normal economic trajectory. Technically, economic growth rate starts with agriculture to manufacturing and then to the services sector. Unfortunately, Ghana's growth rate began with agriculture and subsequently moved to the services sector without experiencing much of the manufacturing sector. The direct departure from the agriculture sector to the services sector accounts for the jobless growth. Since the manufacturing sector in Ghana is in its nascent stage, more jobs have not been created whilst a lot of goods are imported from outside.

Finally, Ghanaian's educational system is to blame for the jobless growth in Ghana. The educational system is traditional in nature and does not address the competencies and specific skills required by industry. Most graduates do not have the requisite skills and knowledge to survive in this ever changing world where technological innovation and application are the order of the day.

### **2.10.5 Balanced Growth**

Two arguments support balanced growth. Firstly, in the absence of balanced growth, prices in one sector of the economy may be higher than the prices in the other sectors. Secondly, when the economy grows, then several bottlenecks appear in different sectors. As a result of economic growth, income of people increases and demand for goods and services become elastic. According to Lewis (2012), all sectors in an economy should be developed simultaneously so that balance is maintained amongst industries, agriculture, production for domestic use and export. Poor trade policies between developed and developing countries could account for this disparity. There is therefore the need for developing countries to implement economic policies aimed at reducing the economic imbalances.

It is important to understand balanced growth especially in a developing country, like Ghana which has seen growth for the past decade but has not trickled down to job creation.

## **2.11 Economic Development Paradigms**

### **2. 11.1 The Washington Consensus and Macroeconomic Stability of Ghana**

There is no doubt about the fact that the Washington Consensus has, in one way or the other, contributed to the macroeconomic stability of developing countries including Ghana. The key policies and programmes however did not contribute significantly to job creation. This observation was supported by Woo (2004), who explained that even in emerging economies such as Indonesia, Korea and Thailand, the implementation of the IMF and World Bank Structural Adjustment Programmes left these countries in a poorer shape than before. In the midst of the Asian Financial Crisis, they experienced output losses.

Similarly, Africa and Ghana have largely under-performed under IMF and World Bank programmes. In the 1980's, economic growth in Sub-Saharan Africa was around 2.6% of GDP. More specifically, Africa's growth rate deteriorated by 2.3 per cent in 1985 to 0.8 per cent in 1986. In the 1990's, the

economic performance of Sub-Saharan Africa weakened further to 2.4 per cent. This indicates that the implementation of the World Bank and IMF policies and programmes have largely benefited Ghanaians.

### **2.11.3 Economic Development Model of the IMF and the World Bank**

The International Monetary Fund and the World Bank were established at the Britton Woods Conference in New Hampshire, United States, in 1944 to provide support for developing countries after the World War II to reconstruct their economies. The aim of the World Bank was to provide long-term loans to support the infrastructure development of most developing economies. The IMF on the other hand, focused on giving loans to countries in the short-term. The rationale for the establishment of these two institutions was to help countries not to return to economic depression. The United States is directly responsible for managing these institutions since it has the highest voting rights of 17.16% in the IMF and 16.41% in the World Bank and can veto decisions in its favour at all times.

The funding for the World Bank and IMF come from the developed countries such as USA, Japan, UK, Canada, France and Italy. The World Bank and IMF were progressively popular in Africa as a result of the economic difficulties they went through in the early 1980s. From 1980s through to the 1990's most African countries could not pay their loans as a result of international oil price volatility and rising inflation. The World Bank and IMF operated by giving loans and grants to countries in economic crises through the implementation of its structural adjustment programme and economic recovery programme. They operate by limiting the role of the state and promoting the private sector as the engine of growth. The economic development ideology or paradigm is neo-liberalism, "free market fundamentalism", or simply put, the "Washington Consensus. The IMF conditionalities required countries benefiting from their loans to be fiscally disciplined, privatize their economies, liberalize their trade, remove subsidies on agriculture and to adopt market-based pricing.

#### **2.11.4 The Washington Consensus**

Williamson (1989) pioneered the Washington Consensus and spearheaded the economic reforms to restructure the economies of most developing economies in the world in the 1980's. The ten principles of the Washington consensus include fiscal discipline, public expenditure priorities, tax reform, interest rate, exchange rate, privatization, trade liberalization, foreign direct investment, deregulation and property rights.

##### **1. Fiscal Discipline**

The first and the most important of the ten principles was fiscal discipline. Williamson noted that government should strive to reduce large and continued fiscal deficits which are pointers to macroeconomic instability. This will spark off inflation; induce balance of payment deficit and capital flight. Fiscal discipline entails reducing government spending especially in developing economies where there are high doses of corruption, weak institutions, and inefficient resource allocation in the economy. In relation to inflation, government spending through money supply brought about inflation. This caused the government to borrow from external sources and will result in huge fiscal deficit with its resultant debt serving burden. Another important feature of fiscal discipline is the fact that government should have a plan to narrow fiscal deficit so that it is not found wanting during recessions. There is the need to reduce deficit when the economy is stable so that it can build budget surpluses to cushion itself when there is economic recession.

##### **2. Public Expenditure Priorities**

The second principle of the Washington Consensus is the public expenditure priorities. Williamson pinpointed five areas of public expenditure that needed to be reduced. He cited military, public administration, subsidies, education, health and public infrastructure investment. Military spending should be reduced to the barest minimum whilst steps should be taken to reduce administrative expenses through institutional strengthening and increased transparency. Procurement processes need

to be streamlined, internal controls and accounting policies must reduce public waste. It was contended that reduction in corruption and improvement in public expenditure will help the government to save money for productive investment.

### **3. Tax Reform**

Government must seek to reform their tax system to ensure that the base is broadened to reduce the incidence of only a few people paying taxes in an economy. However, tax revenue was critical so that government can match its revenue against its spending. Taxation and related incentives can boost productive capacity to create jobs.

### **4. Interest Rates**

The idea that interest rate should be determined by the interplay of demand and supply was given some impetus. This is important to avoid a situation whereby a few people will fix interest rate. It is also meant to reduce arbitrariness. Similarly, interest should encourage savings in an economy such that it should be positive. According to the Washington Consensus, interest rates must be fixed by the interplay of demand and supply and that should be the basis for achieving enhanced savings for economic development.

### **5. Exchange Rates**

Exchange rates were promoted as key benchmarks for boosting export. It is said that a reasonable and competitive real exchange rate allows for the purchase of internally produced goods to be bought at relatively low price with external currency by foreign buyers. To reduce trade imbalances based on the policy of the government, it was prudent for export to reduce deficit so as to improve balance of payment. This made developing countries competitive and avoided depreciation problems.

### **6. Trade Policy**

As far as trade policy is concerned, a good trade policy is an opportunity for the development countries to transact business with developed countries. Through importation, development countries will reap

the benefits of competitive advantage. Under the Washington Consensus, developing countries will have to do away with protectionist policies. By and large, the trade liberalization will be used as a tool for speeding economic growth.

### **7. Foreign Direct Investment**

Foreign direct investment is a critical pillar of the Washington Consensus and allows the flow of capital and technology to development countries. There were various options for encouraging foreign direct investment. One preferred option was to encourage debt-equity swaps. Government should create the enabling environment by offering tax incentives to boost foreign direct investments.

Finally, there is the growing trend in the application of Public Private Partnerships as a tool for project financing. Rather than simply offering incentives and creating a stable business environment, it is better for governments to form strategic partnerships to get the needed funding for its projects.

### **8. Privatization**

Privatization is based on the idea that the private sector is the engine of growth in an economy since the state is inefficient in the allocation of resources. In the private sector the desire to be profitable is ranked above all else. This would enable resources to be properly allocated whilst corruption is reduced. Williamson noted that privatization in the short run will provide funds to the government through the sale of state enterprises. In the long-run, government will reduce its maintenance cost for the state enterprises.

### **9. Deregulation**

Deregulation was a major policy under the Washington Consensus. Under this principle, governments in development countries are supposed to promote fair competition to reduce bureaucracies to ease the flow of business. Also important was the need to achieve stable price control to aid competition. The argument in favor of capital market liberalization is based on the idea that it leads to higher output and efficiency and must be promoted by all governments.

## **10. Property Rights**

In the view of Williamson, property rights have the tendency to achieve a well-functioning economic system. The six areas of emphasis were asset revaluation, information integration, accountability, networking, asset protection making the asset marketable. There was the need for property rights to be enforced through the writing of contracts.

### **2.11.5 The Effect of the Washington Consensus on Job Creation**

The effect of the Washington Consensus on job creation can be looked at from two fundamental areas. Whilst proponents of the Washington Consensus indicated that the implementation of the consensus has had a positive effect on fiscal discipline and job creation; others contend that the Washington Consensus has not benefited most developing countries in Africa and Ghana in particular. In this regard, the impact of Washington Consensus is analyzed from two different perspectives i.e. the positive and the negative impacts.

#### **2.11.5.1 Merits of the Washington Consensus**

Ajayi (2001) demonstrated the relevance of the Washington Consensus to the development of Africa and Latin America. One can cite economic integration, trade and privatization as key areas that have impacted positively on the performance of countries. Also, there was a rebirth of globalization which brought up new opportunities, transfer of new technologies and expansion of the local market. Mrabet and Lanouar (2012) pointed out that different studies showed the positive correlation between the implementation of the Washington Consensus and the development of the economies of African countries.

Sachs (1995) also indicated that ten principles of the Washington Consensus had some measure of validity in relation to the modernization of taxes, investment in critical sectors of the economy such as education, fiscal discipline, sustainable government borrowing, etc. All these contributed in no small measure to the economic development of developing countries. The adoption of flexible exchange rates regime helped to improve economic welfare. As noted by Sachs (1995), The term “Washington Consensus”, in the minds of most people around the world, has come to refer to the development strategies that focus on privatization, liberalization, and macroeconomic stability. These set of policies

are predicted upon a stronger than warranted unfettered market and aimed at reducing, or even minimizing, the role of government”

#### **2.11.5.2 Demerits of the Washington Consensus**

Obadan (2008) stressed that trade liberalization induced imports. Developing countries could not achieve much with their trade arrangements under the Washington consensus. The Washington consensus paved the way for governments to do away with protectionist policies. Devaluation and removal of subsidies affected food production and agriculture generally. Obadan (2008) emphasized that developing countries found liberalization to produce bad results. Gill (1995) commented that during the few years of implementation of the IMF policies, import of developing countries blossomed. Trade liberalization de-emphasized industrialization in many developing countries and the end results were nothing but poverty, loss of jobs and inequality (Williamson, 2003).

One of the results of the Washington Consensus was deflationary consequences which led to the decrease in investments and economic growth. For instance, the Washington consensus focused largely on the private sector as the engine of growth. From the 1980's to 1990s, private sector investment was reduced drastically (UNCTAD 1998).

According to Soludo (2004), the Washington Consensus which encouraged importation subsequently had a negative effect on the Nigerian economy. As a result of the reduction in tariff, government revenue was subsequently reduced and affected the smooth running of the Nigerian economy. Woo (2004) summarized the negative consequences of the Washington consensus as follows:

- Getting prices and institutions right cannot happen simultaneously. The Consensus deprived governments the opportunity to supply public goods to their citizens. Private sector was the

central theme of the consensus. However, the Washington Consensus did not factor innovation into the whole development agenda of most developing economies.

- The one size-fit all approach to the implementation of the consensus did not work well for some countries in East Asia and sub-Saharan Africa. This gave birth to the Beijing consensus.

## **2.12 The Beijing Consensus**

The concept of Beijing consensus was advanced as an alternative to the Washington consensus and is referred to as the Chinese Development Model. Contrary to the ideals of the Washington Consensus, the Beijing Consensus contended that development should not be tied to conditionalities and unilateral decisions. Instead, economic development agenda must be owned and developed by those benefiting from the economic programmes. Also, the Beijing Consensus departs sharply from the Washington Consensus since it has not got universal values. The Beijing Consensus was dedicated to a multipolarity of ideas, where other models can exist peacefully next to each other (Robel, 2010). Chinese development model underscores the fact that every country has its own methods, policies and programmes that can lead to the development of the country as opposed to those prescribed by the Washington consensus. According to Joshua Cooper Ramo (2004) who coined the term “Beijing consensus” in 2004 in his book, “The Beijing Consensus’ as he described the key objectives of china as an alternative to the Washington consensus.

Huang (2011), explains that the Washington consensus was pursued after the cold war due to the global oil crisis and the debt crisis that hit the developing countries. Tull (2008) argued that the Washington Consensus lacked strong ideological stance particularly in Africa where the Bretton Woods institutions implemented Structural Adjustment Programmes. The Beijing consensus was predicated on non-involvement in the internal management of the economy and the territory integrity of the developing country (Shelton, 2012). The President of Senegal, Abdoulaye Wade remarked that

African governments should align their development agenda with that of Asia. In his view, The Chinese model of development is highly recommended for Africa since Africans will get direct aid and credit lines to develop their infrastructure; build roads, bridges, schools, hospitals, dams, and airports. In many African countries, investments in infrastructure contribute to economic growth and job creation (Condon, 2012).

African countries foray into China could be looked at from the volume of trade between Africa and China for the past twenty years. As a result of the introduction of the Beijing consensus, trade between China and Africa by increased by 700 percent in the 1990s, and from US\$3 billion in 1995 to US\$32 billion in 2005, and subsequently to US\$55 billion in 2007.

### **2.13 Chinese Development Model/Approach**

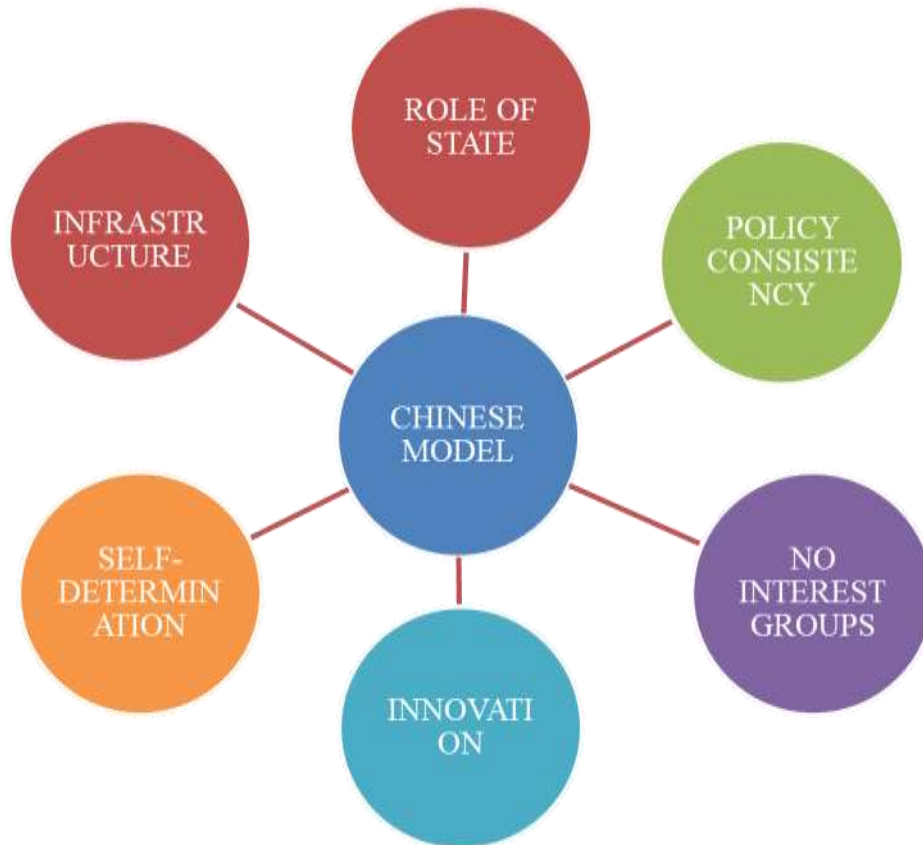
The underlying principles for the Chinese development model are premised on a mixture of Chinese thinking and key lessons learnt from the global financial crises (Ramo, 2004). The model was developed during the 1979 agricultural revolution and subsequent industrial reforms. Li (2008) explained that the Chinese development model underwent economic liberalization (Xing L, 2008). The Chinese development model represents an amalgamation of authoritarian socialist policies and market based forms of economic development. One of the cardinal principles of the Chinese development model is the idea that export must be promoted by the developing countries to stimulate internal economic development. According to (Ajakaiye,2006), the model has been recognized by many African governments as a panacea for their development (Ramo,2004). The overwhelming acceptance of the Chinese development strategy by African governments is a pointer to the fact that the Chinese model has an equitable development paradigm which focuses on peaceful, quality economic development driven by a unique desire to transform the African continent. It calls for homegrown solutions to the development of Africa where there is balance of power.

The three most important building blocks of the Beijing Consensus are innovation, experimentation and self-determination but the greatest of all the features of the Chinese development model is innovation and technology (World Development Indicators, 2006). In addition, selectivity, respect for sovereignty and the role of the state are also important features of the Beijing consensus.

#### **2.14 Application of the Chinese Development Approach**

Most African countries are in their incipient stages of economic transformation and development and require development assistance. The choice of the Chinese development model is based on the fact that developing countries are seeking for innovative ways to industrialize their economies and the Chinese model offers an alternative. Presented below are the key building blocks of the Beijing Consensus.

**Figure 2.1: Key Features Of The Chinese Development Model**



As depicted in figure 2.1 above, the main features of the Beijing Consensus as a new development paradigm capable of sustaining the economies of developing countries. On the whole, the model is built on strong control of the state, economic policy reliability, innovation and self-determination. The model emphasizes infrastructural development as a fulcrum for investment, job creation and poverty alleviation.

#### **2.14.1 Criticism of the Chinese Development Approach**

The main criticisms leveled against the Beijing Consensus were that countries that sought development from the perspectives of the Chinese model must first of all appreciate the Chinese experience, values and culture. Thus, there is an element of experimentation that sought to guide a developing country along sustainable development.

### 2.14.2 The Impact of the Beijing Consensus on Job Creation in Ghana

The Beijing Consensus has had a lot of impact on job creation in Ghana. China has since 1990 been supporting Ghana in road, Dam construction trade and investments, ICT and many project-related areas through Ghana's adoption of the Chinese development model. Ghana's establishment of the Ghana Investment Promotion Centre in 1994 with (Act 478) was part of efforts to encourage, promote and ease investment in Ghana and registered 855 projects, worth about \$13 billion and which generated 60,000 jobs for Ghanaians (Quartey P et al., 2009). By December 2009, China was the leading Investor in Ghana. Tsikata (2008) stated that Chinese companies constituted 249 projects and represented 34% of total investment in the manufacturing sector and 19% in general trade the Chinese investment and were valued at \$17.87 million (Tsikata et al., 2008).

### 2.14.3 Chinese Loans, Aids and Grants to Ghana

Since the implementation of the Beijing Consensus, Ghana has benefited from a number of loans and aid and these had no conditionalities as the Washington consensus prescribed. As a result, Ghana has benefited from loans, grants and technical assistance. Typically, all the loans that have been extended to Ghana are interest-free or interest-subsidized (Tsikata et al, 2008). Presented below are some of the loan and grants extended to Ghana for infrastructure projects.

**Table 2.2 Some the Loans and Grants from China to Ghana (1995-2006)**

<b>Loans</b>	<b>Years</b>	<b>Amounts/Millions</b>	<b>Purpose</b>
Loans	1995	150 Yuan/18 Dollars	Joint Venture
Loans	2006	250 Yuan/30 Dollars	National Communication Project
Aid/Grant	2007	30 Dollars	ICT For Security Agencies
Loan	2007	602 Dollar	Bui-Dam Project
Grant	2002	30 Dollars	Road Construction

Grant	2004	40 Yuan	General Development
Loan	2006	50 Yuan	General Development
Loan	2007	25 Dollars	Debt Cancellation

**Source: Tsikata et al 2008; 24-25.**

#### **2.14.4 National Communication Project**

China has supported Ghana and in particular the Ministry of Communication with funding to connect all the 10 regional capitals as well as 36 towns in Ghana. This was one of the most important projects funded by China to connect Ghana to the global economy and to create jobs for the teeming youth. The aim of the project is to facilitate national policy and planning efforts of the government and for Ghana to be part of the global village (Quartey et al., 2009).

#### **2.14.5 Hydro-Electric Dam Project**

Furthermore, Bui Hydro-Electric Dam project is yet another which attracted loan facility of \$602m from the government of China to Ghana. This project has facilitated the development of local industries within the catchment area. A number of Ghanaians have been trained and employed at the Bui Dam.

#### **2.14.6 Rail Transport and General Development**

Ghana benefited from \$990 million in 2009 to develop its Railway lines from Accra- Tema, Accra- Nsawam and Accra- James Town Railway lines. China has thus created numerous opportunities for jobs to be created for Ghanaians. As can be seen from Table 2, a total of \$14.8 billion was extended to Ghana to support the government in oil and gas development, e-governance projects, and bauxite refinery.

**Table 3: Chinese Loans with Ghana**

	<b>Amount in Dollars</b>	<b>Beneficiary Sector</b>
Chinese Government	10.4 Billion	To Buy a Stake in Jubilee Oil Fields.

Chinese Development Bank	3 Billion	Ghana's Oil and Gas Sectors
Chinese Government	400 Million	Water and E-Governance Projects
Chinese Bosai Mineral Groups	1.2 Billion	To Build Bauxite and Aluminum Refinery

Presented in Table 4 is the total employment generated in Ghana by Chinese companies from 2000 to 2012, which stood at 19,000. Expatriates who had been employed by the Chinese were 3,068 whilst those Ghanaians directly employed by the Chinese were 15,932.

**Table 4 Total employment generated in Ghana by Chinese companies from 2000 to 2012**

Year	Ghanaians	Annual Change	Non Ghanaians	Annual Change	Total	Annual Change
		(%)		(%)		(%)
2000	197	-	32	-	229	-
2001	449	128%	60	88%	509	122%
2002	428	-5%	76	27%	504	-1%
2003	206	-52%	56	-26%	262	-48%
2004	385	87%	70	25%	455	74%
2005	1,078	180%	149	113%	1,227	170%
2006	1,350	25%	203	36%	1,553	27%
2007	1,816	35%	330	63%	2,146	38%
2008	2,062	14%	262	-21%	2,324	8%
2009	1,301	-37%	245	-6%	1,546	-33%
2010	2,791	115%	739	202%	3,530	128%
2011	2,649	-5%	575	-22%	3,224	-9%
2012	1,220	-54%	271	-53%	1,491	-54%
<b>Total</b>	<b>15,932</b>		<b>3,068</b>		<b>19,000</b>	

**Source: Authors computation based on data obtained from Ghana Investment Promotion Centre, 2013.**

Table 4 shows the sectorial breakdown of employment by Chinese companies from 2000 to 2012. From Table 4 below, the Chinese created a lot of jobs in the manufacturing sector than any other sector with 7,355 followed by the trading sector with 3,987 employees. The total breakdown of jobs created by the Chinese in the construction sector was 2,631. The sector with the least registered number of employees was Liaison.

**Table 5. Total Sector Breakdown of Employment Generation by Chinese Companies, 2000-2012**

<u>Sectors</u>	<u>Ghanaians</u>	<u>Non – Ghanaians</u>	<u>Total</u>
Agriculture	320	50	370
Building/Construction	2,631	536	3,167
Export Trading	216	56	272
General Trading	3,287	700	3,987
Liaison	77	135	212
Manufacturing	6,377	978	7,355
Service	1,845	426	2,271
Tourism	1,150	179	1,329
<b>Total</b>	<b>15,903</b>	<b>3,060</b>	<b>18,963</b>

**Source: Ghana Investment Promotion Centre, 2013.**

However, a number of Chinese are involved in retail trading and have some of their employees as Ghanaians (Giese and Thiel, 2015a). It has been said that some Chinese have gone round our laws permitting them to register fictitious businesses in Ghana (Giese, 2015b).

As discussed above by many authors, the Beijing consensus is different from the Washington consensus. However, when the two consensuses compared one by one, one will find that there are similarities. In terms of addressing fiscal discipline, China, maintains comparative fiscal discipline through broadening of the tax and reduction in public expenditure for the good of the state. Again, on deregulation of prices and privatization, international trade, the Chinese has similar arrangements to encourage foreign direct investment by maintaining competitive exchange rate. A review from the

literature indicates that China did not naturally develop through the free market model. It adopted its open door policy to encourage the flow of technology and innovation into China. Through joint ownership and manufacturing power, the Chinese model is able to integrate itself into the world trade and export technology to most parts of the world.

### **2.15 The impact of the Sino hydro Project on Development of Infrastructure in Ghana**

The need for a radical re-thinking of a new development strategy for African Countries is fast becoming an imperative considering the conditionalities of the IMF and how far its policy prescriptions have affected the growth and development of the African Continent. The significant economic miracle of China has made it one of the global development partners of choice for Africa in recent times because the Chinese economic development model is free from strings and economic rigidities.

The economic development paradigm of the Chinese is based on what is known as the Beijing Consensus. The three underlying philosophies that reinforce the Chinese economic development model include innovation, chaos management promotion and self-determination. These tenets are embedded in the policies of the Chinese and are meant to achieve incremental innovation and experimentation with exported growth-oriented policy and state capitalism (Williamson, 2012).

Despite this satisfactory Chinese economic development policy, China's political and economic development has become a paradox at three levels. In the first place, China is both a developed and developing country which has emerged as the largest economy in the world. It is worthy of note that some Chinese still live in poverty especially those from the Western part. Secondly, China is a command economy (it remains a Communist state) with a significant market component.

This means that China has peculiar economic features in which the largest multinational companies such as Sino hydro, which are state-owned-enterprises, co-exist in the market with several privately owned businesses. Thirdly, China is currently transitioning from being a factor-driven economy to

being an efficiency-driven one (World Competiveness Report, 2014). It is yet to become an innovation-driven economy. Thus, China's contemporary rise as an economic giant and significant trade partner in the world is based on its resource-driven approach. China's economic development status as both a developed and still developing country has "three faces" of China in Ghana because we have the Chinese state, private multinational companies and individual Chinese in Africa and Ghana for that matter who are all seeking for economic opportunities.

China has become a phenomenal economic force in Africa since 2000. The value of China's trade with Africa increased from US\$1 billion in 2000 to \$55 billion in 2007 to an estimated \$198.4 billion by 2012, representing 5.13% of the total value of China's foreign trade. To deepen its reach in Africa, China since 2000 has been organizing fora aimed at building symbiotic relationship and cooperation with Africa. Africa's exports to China have also increased exponentially from 2.6% in 2000 to 9.3% in 2006. In 2009, China surpassed the World Bank as Africa's top lender and also became Africa's leading trading partner. By 2011, China had accumulated \$16 billion of foreign direct investments in Africa, making it the 6th largest investor on the continent preceded by France, US, UK and Malaysia (UNCTAD, 2011).

It is important to note that Chinese investment in Ghana is not limited to construction and resource-based sectors. The statistics from the Ghana Investment Promotion Centre suggests that Chinese investments in Ghana stretched across a wide variety of sectors, including manufacturing, construction, tourism, service and agriculture. From September 1994 to June 2013, the Foreign Direct Investment (FDI) influx into Ghana from China reached \$543.5 million, making it the tenth biggest FDI provider for Ghana, the top five being the UK, Korea, USA, UAE and Lebanon. Of the \$543.5 million FDI from China, \$254 million went into the manufacturing sector (covering a variety of industries such as iron

and steel, food processing, textile, salt production and fishing). The trade, construction and service sectors attracted \$120 million, \$96 million \$48 million respectively.

Currently, China is the largest trading partner of Ghana, and it has made significant contributions to Ghana's infrastructural development. Over the past ten years, China has featured prominently in Ghana's export and imports. At the domestic front, the Chinese has been involved in construction sector, mining and general trading. The construction of the Bui Dam is a pointer to this fact (Robel, 2010).

The current Sino hydro project is an extension of the many projects the Chinese have implemented in Ghana and will focus on building the much-improved infrastructure, as well as significant industrial facilities for Ghana. Also, the project will allow Ghanaian contractors, who will be primarily responsible for the development of Ghana's infrastructure, to develop their own capabilities. In line with the government of Ghana's economic transformation agenda, the Sino hydro project will build a robust economy, create progress and prosperity for the Ghanaian people and get Ghana out of aid and loans. China's economic development underscores the fact that every country has its own methods, policies and programmes that can lead to the development of the country as opposed to those prescribed by the Washington Consensus (Ramo, 2004).

The President of Senegal, Abdoulaye Wade remarked that African governments should align their development agenda with that of Asia. In his view, the Chinese model of development is highly recommended for Africa since Africans will get direct aid and credit lines to develop their infrastructure; build roads, bridges, schools, hospitals, dams, and airports. In many African countries, investments infrastructure contributes to economic growth and job creation (Condon, 2012).

The overwhelming acceptance of the Chinese development strategy by the African government is a pointer to the fact that Chinese model has equitable development paradigm which focuses on peaceful,

quality economic development driven by a unique desire to transform the African continent. It calls for homegrown solutions to the development of Africa where there is balance of power. This development paradigm is more appealing to most African Countries including Ghana and perhaps it would not be an exaggeration to say that Ghana has followed this economic route because of its policy flexibility and lack of conditionalities. This study assesses the project in terms of the key benefits, challenges relating to the repayment and its overall impact on the Ghanaian economy.

### **2.16 Background of the Project**

The government signed an agreement with the Chinese government to sell refined bauxite to China's Sino hydro Group Limited and in return receive \$2billion to undertake infrastructure projects in Ghana in 2017. This follows the adoption and approval of the report of the Finance Committee on the Master Project Support Agreement (MPSA) between the Government of the Republic of Ghana and Sino hydro Corporation Limited for an amount up to US\$2billion for the construction of priority infrastructure projects across the country. The deal which is in the form of barter will enable Ghana raise US\$2billion from China's Sino hydro Corporation Limited to undertake various infrastructure projects that are aimed at bridging the country's infrastructure deficit estimated at US\$30billion. Sino hydro Corporation Limited would in turn, receive refined bauxite in the form of alumina or aluminum over a fifteen-year (15-year) period (inclusive of a three-year grace period) from the Republic of Ghana.

In line with the Master Project Support Agreement, the Government through the Ghana Integrated Bauxite and Alumina Development Authority (GIBADA) will establish a bauxite processing plant to process the raw bauxite into alumina before shipping same to service its obligations to Sino hydro Corporation Limited's strategic partner.

The first phase of the Ghana Sino hydro US\$2billion infrastructure deal, comprising the release of US\$500m to undertake infrastructural projects in roads, bridges, hospitals across the country is expected to commence before the end of the year. The next steps are that, the phase one project which has been approved by Cabinet will get Parliamentary approval and then construction will commence by the end of this year. Most of the projects under phase I are found within urban areas whilst the phase II will focus on infrastructure development in the rural areas. In the deal, the Chinese firm requires them to spend half of the money, \$1 billion on roads and bridges infrastructure across the country and the remaining on other projects like construction of schools, hospitals and other facilities the country requires. Sino hydro will be providing the infrastructure, but Ghana will choose its own partner to set up the integrated aluminum development industry. The partners could come from America, Australia, Canada, China, wherever. Once the government of Ghana is confident of the capacity of the potential partners, it will enter into partnership with them.

### **2.16.1 The Sino Hydro Project**

The project will fund the infrastructure projects in Ghana, including roads, bridges, interchanges, hospitals, housing, railway development as well as rural electrification. The rationale for the implementation of the project is to step up its socio-economic development. Similarly, there is the need to improve access to roads to aid in tremendously reducing travel time, congestion, vehicle operating cost, accidents and the cost of doing business particularly in the cities.

Under the deal, Sino hydro Group Limited of China will provide \$2billion of infrastructure of government's choice in exchange for Ghana's refined bauxite. Over the years, government had implemented some major road projects and continued to look for funding to implement additional critical infrastructure projects including hospitals, bridges, interchanges, roads, affordable housing and fishing landing sites.

The overriding consideration for identifying the priority projects across the country was its strategic socio-economic significance. The project would help to accelerate the pace of the nation's infrastructural development. Under the project, Sino hydro had agreed to arrange for one or more loan facilities for payment of 85 per cent of the construction and project cost of the priority projects of the government. The aggregated cost of these priority projects was estimated at \$2 billion, which Sino hydro had consented to arrange the project financing arrangement for deferred payment by the government. The government would provide the remaining 15 per cent counterpart funding of the construction and project cost.

### **2.16.3 Project Objectives**

The objectives of the project are to improve road infrastructure for enhanced intra-urban, regional and national road traffic flow, pursue rural electrification, affordable housing and strengthen economic and regional integration and reduce the cost of doing business in the country. The project is essentially a barter facility under which Sino hydro will implement various contracts for Ghana and the state will repay with refined bauxite (alumina/aluminum). It is also meant to strengthen economic and regional integration and reduce the cost of doing business in the country.

### **2.16.4 Key Features of the Project**

The key features of the project in terms of how funds will flow are presented below:

- A. Sino hydro finds a bank willing to support this whole endeavor.
- B. Ghana sets up an escrow account with the bank, including signing the requisite agreements that should allow release of funds from the account without further recourse to Ghana if needs be.
- C. Sino hydro insures the risk of default at Ghana's ultimate cost (the envisaged premium is a whopping 9%).

D. Sino hydro issues an “interim payment certificate” (IPC) to the Government of Ghana, which approves same.

F. Either Sino hydro or Ghana presents this IPC to the nominated bank

The bank checks that Ghana is not in default of the escrow terms.

H. Sino hydro gets paid by the Bank.

I. Ghana maintains a balance of 8.5% of the total debt amount in the escrow account at all times as collateral to ensure that the next IPC submitted by Sino hydro shall be paid. The amount stays static throughout the repayment period/loan tenor and is not adjusted based on amount outstanding.

### **2.16.5 Deferred Repayment Terms**

Under the agreement, the Chinese state-owned hydropower engineering and construction firm is responsible for arranging the project financing for all the priority projects subject to the mutual agreement of the parties. Sino hydro shall be solely responsible to enter into the financing agreement with any financial institution that agrees to provide the project financing. The barter payment period will commence after an initial three-year grace period because they are expecting a good chunk of the work and payment structure to be put in place within the first three years. The barter payment shall be made with refined bauxite or aluminum by the government agency, Ghana Integrated Bauxite Development Authority. The Ministry of Finance is required to ensure that the proceeds generated by the Government of Ghana from selling refined bauxite will be deposited into an Escrow Account which shall be opened and maintained in a reputable offshore Bank acceptable to Sino hydro and the financiers. Any applied amount up to the total balance in the Escrow Account shall be remitted to Sino hydro to service the facility upon the presentation of Interim Payment Certificates (IPC) signed by the Ministry at Roads and Highways.

## **2.16.6 Benefits**

### **1. Symbiotic Win-win Agreement**

The Sino hydro deal has been structured to be mutually reinforcing and a win-win situation for both parties. For Ghana, as has been indicated earlier in this report, there will be much-improved infrastructure, whilst China will get aluminum products instead.

### **2. A Major Source of Foreign Direct Investment**

This project will bring huge foreign direct investment to Ghana. Today Ghana is the leading recipient of foreign direct investment in West Africa.

### **3. Improved Infrastructure Development of Ghana**

The project has the potential to contribute immensely to road infrastructure development of Ghana in all the 16 regions. In addition to the road infrastructure development, the project seeks to focus on hospitals and rural electrification in selected communities. Also, the project involves the construction of courts and residential buildings for the Judicial Service, landfill sites and industrial parks.

### **4. Job Creation**

The project will provide immense socio-economic benefits for the selected communities. In addition, as many as 5,000 jobs will be created. The project also has the capacity to facilitate the emergence of direct and indirect economic activities, leading to improvement in incomes and standard of living of inhabitants within the communities in which the project will be implemented.

## **2.17 Hypotheses Development**

The key constructs used for the development of the hypothesis include fiscal discipline, budget deficit, job creation, more government borrowing, structural transformation, increased government spending, strong political commitment, the role of fiscal institutions, public debt, Washington and Beijing Consensuses.

### **2.17.1 Fiscal Discipline and Job Creation**

The nexus between fiscal discipline and job creation has long been debated both in theory and empirical literature because of its relevance in the management of public financial resources (Mohan, 2003). The presence of weak budgetary control mechanism constraints by government in making prudent resources allocation leads to excessive spending in most cases. Fiscal discipline as a multi-dimensional construct can be understood within the context of its stabilizing function, political, legal economic and sociocultural features (Musgrave 1959) and (Oats, 1972). As a concept, fiscal discipline refers to all key fiscal national aggregates, such as total government spending and revenue mobilization, fiscal balance and public debt and an essential lever for achieving macroeconomic stability. Good fiscal discipline requires prudent spending and increased tax revenue. However, in most developing economies, this is undermined by political interest and common pool problems (Touché, 2015). The concept of fiscal discipline is used by economists to connote efficient resource management and becomes the ethical fulcrum upon which democracy and sustainable economic development are built , ( Mikesell, 1999). By implication fiscal discipline places rules and limits on budget resources for the government public institutions, Ministries, Departments and Agencies (MDAs) through parliament approval and the process of budget monitoring (Axelrod 1988). One of the key tenets of fiscal discipline is the balancing mechanism for revenue mobilization and strengthening a sound debt management policy.

There is an economic consensus towards the need for more “growth and jobs-oriented policies which are at the heart of the implementation of the Stability and Growth Pact by most countries in the European Union. According to Jordà & Taylor (2016), there is a positive relationship between implementing Stability, the Maastricht and the Stability and Growth Pact (SGP) and macroeconomic stability.

The causal relationship between tax revenue mobilization and government spending has remained an empirically controversial issue in economic literature. According to Mehrara et al., (2011) many empirical studies have examined the relationship between government spending and tax revenue. The quest for direction of causality for either government spending or revenue determines the type of fiscal reform that might be required to address a particular fiscal imbalance in an economy (Petanlar & Sadeghi, 2012) and (Aregbeyen & Ibrahim, 2012).

The first argument put forward by both Friedman (1978) and Buchanan & Wagner (1978) is what is referred to as tax-and-spend which argues that increasing taxes will lead to increased government spending. Government revenue determines government expenditure so that there is a unidirectional causality between tax revenue and government spending. As revenue goes up, government expenditure correspondingly increases, leaving the budget deficit unaffected (Wolde-Rufael, 2008).

The second argument is the spend-and-tax which suggests that any change in government spending causes changes in government revenue and thus infers a uni-directional causality that runs from government revenue to government spending. This hypothesis was asserted by Barro (1979) and Peacock & Wiseman (1979). They claim that government spending changes government revenue. According to the spend-and-tax view, government first increases its spending and then resultantly increases its revenue. Peacock & Wiseman (1979) put forward the notion that economic and political uncertainties would justify the reverse fiscal policy for spending and would subsequently hike taxes. In effect, a temporary increase in government spending would raise taxes permanently.

The third argument is that, fiscal synchronization, which was argued by Musgrave (1966) and Meltzer & Richard (1981) must be equated. They argued that both government spending and revenue must be equated so that the government can plan its financial decisions. In other words, spending and revenue

decisions are jointly determined by the government. This frees fiscal space for jobs to be created in an economy. Therefore, there is a bilateral causality between government revenue and government spending which when efficiently applied, leads to economic growth and job creation (Abu AL-Foul & Baghestani, 2004).

Finally, the fiscal-neutrality argument postulated by Baghestani & McNown (1994) holds the view that both government spending and revenue are linked to long-term economic growth and development of a country. This lack of relationship can be attributed to the varied view of stakeholders in the public sector.

Over the past three years, Ghana's external debt keeps on growing and the government has been borrowing from the local market to finance its projects. In 2007, the government initiated the process for the issuance of the first bond. Ghana has a huge infrastructure deficit which is estimated to cost it annually about 2% of GDP. It is also estimated that the country needs to spend about \$2.3 billion annually on infrastructure, i.e. on roads, water and energy, to ensure a steady economic growth as against its current annual investment of about \$1.2 billion. The justification for the issuance of the bond was to borrow from outside to fill the financing gap so as to accelerate economic growth and to create jobs. However, government borrowing could be risky if they are not used for projects with higher rate of economic return.

Borrowing increases interest rate in an economy as it crowds out the private sector. Consequently, using Eurobond to finance government expenditure will exert upward pressure on the interest rate. This happened in 2008 after the first sovereign bond was issued that sparked off the money market rates to go up. Excessive borrowing endangers economic growth and hence job creation (World Bank, 2011).

Furthermore, there is a positive association between borrowing and its effect on taxation. Jackelen and Zimmerman (2011) posited that anytime governments issue Eurobonds, domestic tax mobilization declines. Ghana in recent times faces serious external account challenges with worsening balance of payment deficits. The growth of the Eurocurrency market could have a negative impact on imported goods and services and thereby exacerbating the already precarious negative balance of payment situation.

Similarly, the Eurobond can impinge negatively on investment and growth of the Ghanaian economy increases. Ayagari, et al., (2007) asserted that there is a direct positive relationship between national (government) consumption and imports, and external inflows.

This is in line with Ghana economic development strategy that relies heavily on external financing. However, this implies that the external debt of Ghana will go up. Both interest and principal payments have accordingly increased and this could affect Ghana's debt situation. The massive growth in external debt has led to a considerable debate over how detrimental debts can be on investment, economic growth, and sustainable development. Government external borrowing can have a telling effect on the interest rate of banks. There is therefore an inverse relationship between government borrowing from the domestic market and its overriding effect on the banking sector (World Bank, 2011).

According to the (IMF, 2015), developing countries such as Ghana lack the necessary capital to finance its infrastructure and therefore borrows from the external market to complement the implementation of its development policy. Unfortunately, Ghana is increasingly overburdened with the problem of mobilizing satisfactory domestic revenues to sustain the economy as well as fund the borrowing gap.

Furthermore, there is a positive association between the issuance of Eurobond and its effect on taxation. Jackelen and Zimmerman (2011) posited that anytime government borrow from the Eurobond market, domestic tax mobilization declines and government does not have the necessary resources to create jobs. Also, government borrowing could have a negative impact on imported goods and services and thereby exacerbating the already precarious negative balance of payment situation (Zhang, 2015). To create jobs in an economy government should free up fiscal space, reduce borrowing and maintain strong fiscal policies to influence job creation.

On one hand, government is seeking for innovative ways to manage its borrowings and debt. On the other hand, government must implement inclusive policies aimed at job creation and poverty alleviation. The greater the level of conflict among competing groups, the more difficult it would be to create jobs (Wolde-Rufael, 2008) and therefore the following hypotheses were stated:

**H1: There is a positive relationship between fiscal discipline and job creation**

**H2: There is a positive relationship between increased government spending and job creation**

**H3: There is a positive relationship between more government borrowing and job creation**

### **2.17.2 The impact of Washington and Beijing Consensuses on job creation**

The neoliberal dependency theory argues in favour of an economic development paradigm that is market-based and free from the state (Tull, 2008). Rooted in neoliberalism is the set of policies used by the World Bank and IMF known as the Washington Consensus for achieving macroeconomic stability. The policies comprise deregulation, free trade, competition, fiscal discipline, privatization, etc. The implementation of the Washington consensus contributed negatively to the fiscal management of an economy as the policies so prescribed gave government little room for maneuvering. Reconciling the two dominant models of economic development globally remains a critical challenge in the literature

(Carmody, 2009). The focus of both consensuses was on macroeconomic stability, poverty alleviation. However, the Washington consensus, by its policy prescriptions and conditionalities affected the way in which governments in developing economies are run. As indicated by Stiglitz (2012), the Washington Consensus puts a freeze on public sector employment anytime governments go for their programmes, making it impossible for the government to create jobs and to address social issues.

Similarly, the Beijing consensus focused on innovation, institutional stability of developing countries without recourse to conditionalities (Huang, 2010). Nevertheless, the Chinese approach deals with state capitalism and appreciating the fact that it is mostly the private sector that grows an economy to create jobs; it would be interesting to find out how the Beijing consensus has contributed job creation in Ghana. Hence, it will be more useful for these two consensuses to be assessed along the lines of how they have affected the management of the Ghanaian economy and by extension, created jobs. Even though success and economic prosperity of China has had some impact on Ghana in terms of jobs that have been created in the manufacturing, agriculture and construction sectors of the Ghanaian economy, unemployment rate is high in Ghana (Asongu & Aminkeng, 2014). This hypothesis seeks to find out the extent to which the implementation of the two consensuses have negatively or positively affected the fiscal management of the Ghanaian economy and thus the following hypothesis was stated as follows:

**H4: There is a positive relationship between the implementation of the Washington and Beijing Consensuses and job creation in Ghana.**

### **2.17.3 Structural Transformation and Job Creation**

Structuralism is a development theory which deals with the structural aspects of an economy of developing countries. Its framework focuses on transformation of the economy from subsistence agriculture to a manufacturing economy. Structural transformation represents modifications or changes

made to the structure of an economy. It has the tendency to affect income distribution, sectorial arrangement, institutional arrangement and labour and capital mix.

The logic of the structural transformation process is built around the infant industry argument, which advocates for protectionist policies to preserve the local industries from unhealthy competition. The Prebisch-Singer hypothesis states that over time the terms of trade for commodities deteriorate compared to those for manufactured goods, because the income elasticity of demand of manufactured goods is greater than that of primary products. This supports the import substitution industrialization strategy. These effects of economic restructuring are likely to have potential impacts on job creation (Sanusi, 2012).

Treichel (2010) and Asaju, et al. (2014) noted that privatization of state owned enterprises, even though necessary, contributes to 10% of jobs in an economy. According to Al-Habees & Rumman (2012) privatization makes public workers redundant since sometimes they do not have the skill set for the new jobs created through the window of privatization. However, Wang, et al. (2007) demonstrated that state owned enterprises contribute to job destruction because privatizing them entails a decline in jobs in the manufacturing sector. Their empirical findings show that structural transformation contributes to job creation especially when the private sector is the engine of growth.

Other evidence also points out that structural transformation can positively impact on job creation (Farole, 2011), (Yeung et al. 2008). Zhihua Zeng (2010) argues that structural transformation creates a lot of jobs in an economy by required leadership and reforms.

In the light of the mixed empirical results in the literature, there is the need to investigate to the empirical support for structural transformation in a developing country, like Ghana which has seen economic growth for the past decade but only from the oil, gas and services sectors of the economy

without corresponding growth in the manufacturing sector. These empirical studies are supported by the dependency theory developed by Prebisch (1949) and Singer (1949) and implemented empirically by Santos (1971), Frank (1971) and Amin(1989). This evidence is also underpinned by the structural theory of imperialism developed by (Gaultang, 1930).

Structural transformation and job creation are amongst the two major top priorities of Ghana's economic development strategy. For more jobs to be created in an economy, the role of the government is necessary. This is because government has to create an enabling role to build infrastructure and implement deliberate policies. Employment-based growth policies are aimed at facilitating structural transformation and employment-creation (Yeung et al. 2008). There are three types. First of all, standard growth policies will increase economic activity (Commission on Growth and Development, 2008) and hence create jobs (ILO, 2011). A key challenge in structural economic transformation is how to design and implement policies and programmes to facilitate the job creation process (Te Velde and Xenogiani, 2007). Technological adoption, modern management practices and skills development, industrialization policy form an inseparable part of structural transformation. Industrialization has the potential to create more jobs (Zeng, 2010).

According to Lewis (2009) structural transformation is a form of economic development that seeks to witness growth in all the sectors of the economy. He viewed agriculture and manufacturing as complementary to each other such that any growth in the manufacturing sector must also take place in the agricultural sector. Again, expansion of manufacturing sector will give rise to increase in demand for raw-materials through the expansion of the agricultural sector. If these two sectors grow in tandem, the job creation benefits will be numerous for the Ghanaian economy.

Divergent views have also been expressed on the debate relating to structural transformation and job creation and whether the two are viewed as complements or substitutes. Existing empirical evidence indicates that structural transformation and job creation could either be substitute or complementary. The general view is that sound structural transformation policies move in tandem so that by reducing the budgetary room for maneuvering and the political capital, governments may deter economic transformation because it is expensive. Depending on the type of reforms government would like to pursue, it may either be complementary or substitute with fiscal policy. In this respect, a government that is forward-looking will regard structural transformation and job creation as substitutes. However, if government considers the reforms as transitory, then structural transformation and job creation may be considered complementary. Sajedi (2018) suggested that the costs and benefits of structural transformation reforms are generally small, although larger reforms entail larger increase in deficit-to-GDP. This implies that for government to embark on huge structural transformation the benefits must be larger to warrant it.

Similarly, Campoy and Negrete (2010) discussed the relationship between structural transformation and job creation and demonstrated that reforms are required to achieve fiscal policy coordination to boost balance of trade. However, for structural reforms to be successful, it must be implemented alongside some incentives.

Empirically, Kumar et al. (2007) also found that there is a positive relationship between structural transformation and job creation. There is a widespread agreement among economists and policy makers that structural transformation is required in developing countries such as Ghana to reduce structural unemployment.

Implementations of any structural reforms such as formalizing the informal sector, modernizing transformation agriculture, offering courses and programmes at the universities that are market-driven

contribute to job creation. IMF (2016) indicated that there is new evidence that shows that broadly implementing structural transformation can lead to a reduction in government expenditure to GDP (Hoeller et al. (2005). According to Heinemann (2005), there is no direct relationship between structural transformation and budgetary discipline. The impact of transformation on budget discipline has been estimated to be positive over the medium-to-long term horizon, but negative in the short run period (IMF (2004).

A higher degree of fiscal discipline is required to positively impact on budget discipline. Conversely, a less vigorous structural transformation is necessary when government wants to maintain growth or stabilize the economy. In an economic sense, structural transformation and fiscal discipline move together but are stronger when fiscal discipline is prioritized to enhance the fiscal framework. This tends to address the imbalances and slippages and thus pave the way for increased productivity and hence job creation. In the long-run, structural transformation has a positive effect on job creation such that in the there is a complementarity relationship between fiscal discipline and structural reforms. Structural transformation essentially looks at the process activity within an economy at the agriculture, manufacturing sectors. Baah-Boateng and Ewusi (2013) demonstrated that structural economic transformation could contribute to job creation and help reduce the structural rigidities within the Ghanaian economy.

Theoretically, local content takes its root from the endogenous economic growth theory. Proponents of this theory hold the view that developing countries should mobilize internal resources to develop their economy (Ahiakpor, 1985). Empirically, Shuman (2006) stated that the concept of local ownership is opposite in orientation to the neoliberal dependency theory which emphasizes free trade and liberalization of an economy. Instead, it focuses on the long-term growth of local businesses through

deliberate policies by the government. The idea is that if local companies and enterprises grow, they will be retained in the economy and that will have a multiplier effect on the economy.

According to Serra and Stiglitz (2016), the endogenous economic growth theory focuses on a set of economic development policies for developing countries. He contended that inclusive, home grown, pro-poor economic policies are necessary to reduce unemployment and alleviate poverty.

As a result, successive governments in Ghana have advocated for economic independence that is internally-focused and domestically-driven and seeks to de-couple Ghana's economic development from the World Bank and the IMF policy prescriptions (Hutchful, 2002).

It is in furtherance of this policy objective of Ghana to ensure that growth is domestically induced and linked to industrialization to create wealth, that the concept of Ghana Beyond Aid was born to spearhead the socio-economic transformation of Ghana to reduce Ghana's dependence on aids, loans and grants (Bawumia, 2018). Prior to the conceptualization of the Ghana Beyond Aid Programme, successive governments had attempted to implement one form of economic policy or the other including Nkrumah's Import Substitution, Operation Feed Yourself, the Senchi Consensus, among others. Again, the Parliament of Ghana, in recognizing the role of local content in job creation and general economic development of Ghana, passed the local content law.

According to the endogenous economic growth theory inclusive, home grown, pro-poor economic policies are necessary to create jobs in the developing countries. The theory focuses on the need to achieve inclusive economic growth of a country by reducing inequalities, alleviating poverty and generating productive employment opportunities through the regulation of public expenditures and taxes. In the first place, Ghana as a developing country requires substantial resources to finance its economic policy, invest in physical infrastructure, social and other public services. When the

government reduces its borrowings and excessive spending, combined with a deliberate policy to create jobs through tax incentives and training, it will be able to create the right business environment for local businesses to thrive so that more jobs can be created and thus hypothesis five was stated as follows:

**H5: There is a positive relationship between structural economic transformation and job creation**

#### **2.17.4 The impact of fiscal Institutions on Job Creation**

The general view in public finance is that fiscal institutions can be “commitment instruments” for implementing fiscal policies and programmes. These institutions can influence the thinking of government and policymakers to take the right decisions. At the very best, most of the literature on fiscal institutions indicate that supervision of these public institutions rest with politicians who take the strategic decisions. The assumption is that when politicians understand and contribute to the sustenance of fiscal discipline, they would be committed to its cause. For this reason, any strong political commitment by the government is critical to ensuring that fiscal discipline is restored. According to Wyplosz (2005), the involvement of the government is essential in the selection and implementation of fiscal policy. The establishment of the Fiscal Council by the government of Ghana could contribute positively to fiscal discipline as the Council is perceived to be an independent body. In short, where there is strong political commitment to reduce borrowing, cut down excessive government spending, more resources can be channeled to create jobs (Debrun, Hauner and Kumar, 2007). Again, one of the principal sources of deficit bias is attributed to the political process such that in election years, government overspends and the appetite for borrowing increases. The expectation is that strong political discipline and commitment would systematically improve the overall fiscal policy and

performance and eventually lead to job creation and so hypothesis six and seven were stated as follows:

**H6: There is a positive relationship between fiscal institutions and job creation**

**H7: There is a negative relation between public debt and job creation.**

## **2.18 The Conceptual Framework**

The conceptual framework for the study was based on the ten policies from the Washington and Beijing Consensuses that have been followed by the developing countries to catch up with developed countries. Development in Africa was both affected by endogenous and exogenous factors. Walter Rodney (1972) argued that the underdevelopment of Africa can be attributed to exogenous factors such as external loans and colonialism (Amin, 2011). However, internal factors such as government spending, revenue mobilization and debt management have also contributed to fiscal indiscipline and have affected job creation policies in Ghana (Harrison and Huntington, 2000). According to Berger (1985), most developmental problems in the developing countries such as Ghana can be attributed to internal causes, such as macroeconomic instability, political corruption, borrowings, excessive government spending especially during election periods.

For many of the nations of Africa, the post-colonial period cannot be understood as independence because the dependency structure by such economic tools as loans, aid, investments and trade conditions were still dictated by the IMF, the World Bank and other international financial institutions. Amin (2011) referred them to as “collective imperialism of the Triad (the United States, Europe, and Japan).

Bretton Woods Institutions provide three arguments to support their claim that countries that implemented economic policy reforms experience greater development than countries that did not implement any of their reforms. The first argument is that effective implementation of the Washington

consensus fostered the conditions for economic growth, raising local living standards and creating jobs. Secondly, World Bank and IMF maintain that the consensus had a social conditionality, which incorporated key policies to improve the welfare of the citizens through poverty reduction. Thirdly, it is contended that countries that did not achieve measurable success in the implementation of IMF policies, imposed enormous costs on the poor due to unsustainable budget and trade deficits that led to fiscal indiscipline and economic collapse.

The ten economic principles that underpinned the Washington Consensus included fiscal discipline, redirecting public expenditure, tax reform, financial liberalization, adoption of a single, competitive exchange rate, trade liberalization, elimination of barriers to foreign direct investment, privatization of state owned enterprises, deregulation of market entry and competition; and secure property rights.

The theoretical foundations underlying the consensus were built around trade liberation, capitalism regulation of economies that resulted in a kind of dependency. This is quite different from the Prebisch-Singer hypothesis which advocates industrialization of developing countries through local production to reduce imports, boost export, promote employment and raise the standard of living.

The Washington Consensus was implemented as universal principles to the disadvantage of the developing countries. The conditionality exercised by the Bretton Wood institutions contributed to the debt crises and fiscal indiscipline in the 1980s which further increased developing countries' dependence on external loans, leaving them with no other option than to follow the prescriptions of the IMF and the World Bank.

The underlying arguments for the adoption of the Beijing Consensus were built around innovation and constant experimentation, rejection of GDP growth and above all in favour of sustainability and equality, self-determination, export-led economy, state capitalism and authoritarianism (Kennedy, 2010). The 10 principles of the Beijing consensus include localization of best practices, combination of

market and plan, flexible means to a common goal, policy rights, stable political environment, self-reliance constantly upgrading industry, indigenous innovation, prudent financial liberalization and economic growth for social harmony or through economic statism, which refers to the state exercising widespread control over the economy, instead of the growth of the market and powerful private sector-led growth (Ramo, 2004). This was in sharp contrast to the Washington Consensus (Turin, 2010).

Fiscal discipline has been conceptualized in this study as having two relationships, external and internal relationships with job creation. The external relationship relates to the implementation of the Washington and Beijing Consensuses and how their policies have influenced macroeconomic stability and job creation. This relationship is particularly important when Ghana has depended on the IMF and the World Bank for over 20 years for loans that came with various conditionalities that limited the ability of the government to spend in the productive sectors of the economy to create jobs. Similarly, the Chinese have extended development assistance to Ghana in the form of loans and grants. The impact of these loans was assessed to determine their impact on macroeconomic stability and job creation in Ghana.

In the Ghanaian context, understanding fiscal discipline involves appreciating how government mobilizes its revenue mainly from taxes and how it spends. Even though Ghana operates a centralized system of government, part of its expenditures are incurred at the local government level. Such transfers impact on fiscal discipline (Wolde-Rufael, 2008). Fiscal discipline can also be viewed as a complement or substitute to structural reforms in an economy, particularly where the economy is largely informal. According to the Washington consensus, sound fiscal policies and structural reforms support each other on the basis of the particular time period of the government. In this regard, structural reforms can be complement or substitute with fiscal discipline (Alto, 2006).

Given the fact that the public sector in Ghana is riddled with increased government spending which normally translates into budget deficit, the relationship between fiscal discipline and job creation can be understood in a bi-directional manner.

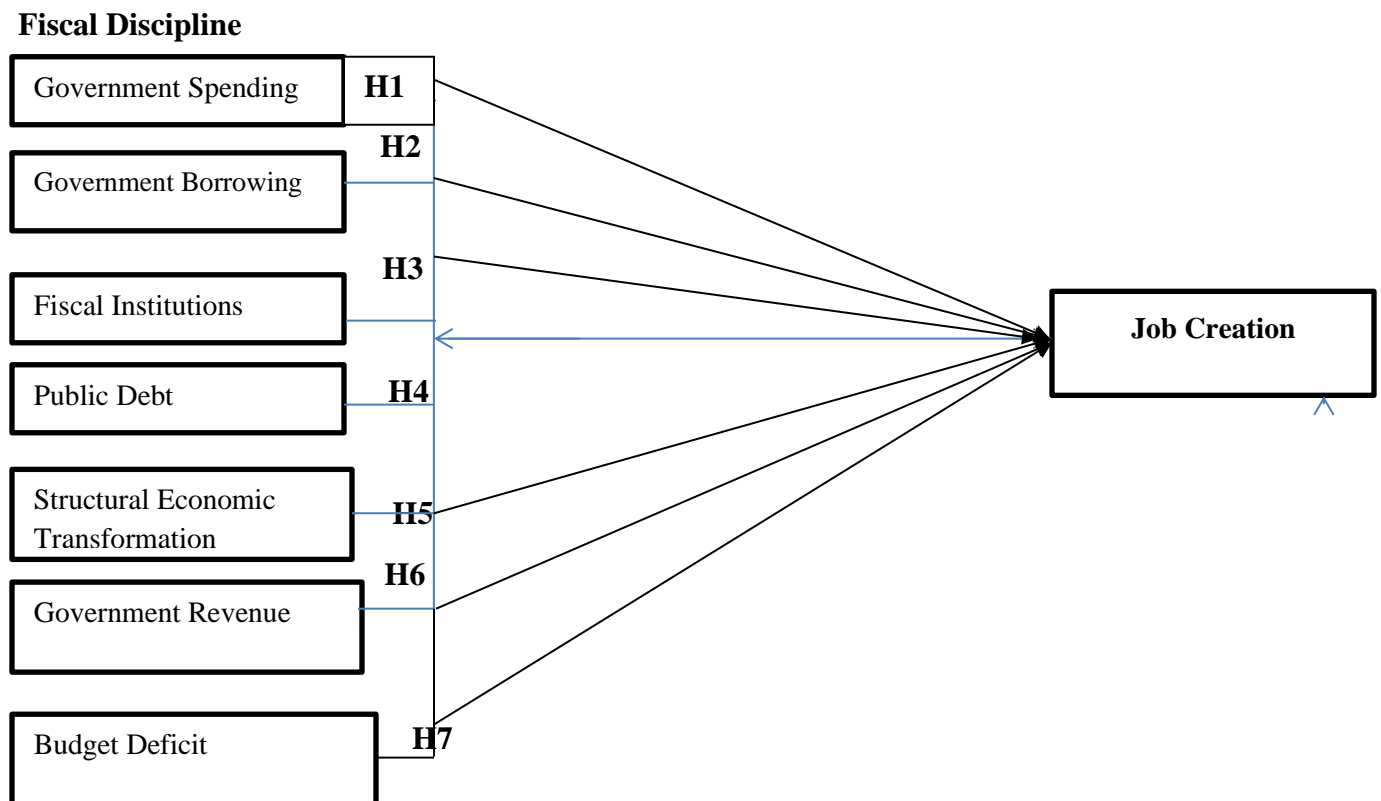
There are three sets of theories that explain the relationship between fiscal discipline and job creation. Dependency theory tends to argue that over-reliance of the Ghanaian economy on the World Bank and IMF programmes has affected the economic development paradigm which has affected fiscal discipline and job creation. Ghana has implemented IMF and World Bank programmes over the past 76 years now. The focus of fiscal policy management has been on fiscal discipline, government expenditure and macroeconomic stability. However, no specific economic policy was implemented to create jobs. Again, the fiscal rules theory emphasizes the need to place numerical rules and conditionalities on government spending and borrowing to achieve fiscal discipline. The conditionalities and freeze on public sector employment, removal of subsidies and streamlining of public sector wage bill have had telling effects on social interventions thereby constricting job creation in Ghana.

Also, the endogenous economic growth explains that jobs can be created through the implementation of home growth policy that focuses on technological development, human capital development and well-functioning of the economic system. The Beijing consensus is a by-product of this theory and focuses on innovation, self-determination, localization of best practices to achieve economic growth for social harmony and prudent financial liberalization of its market.

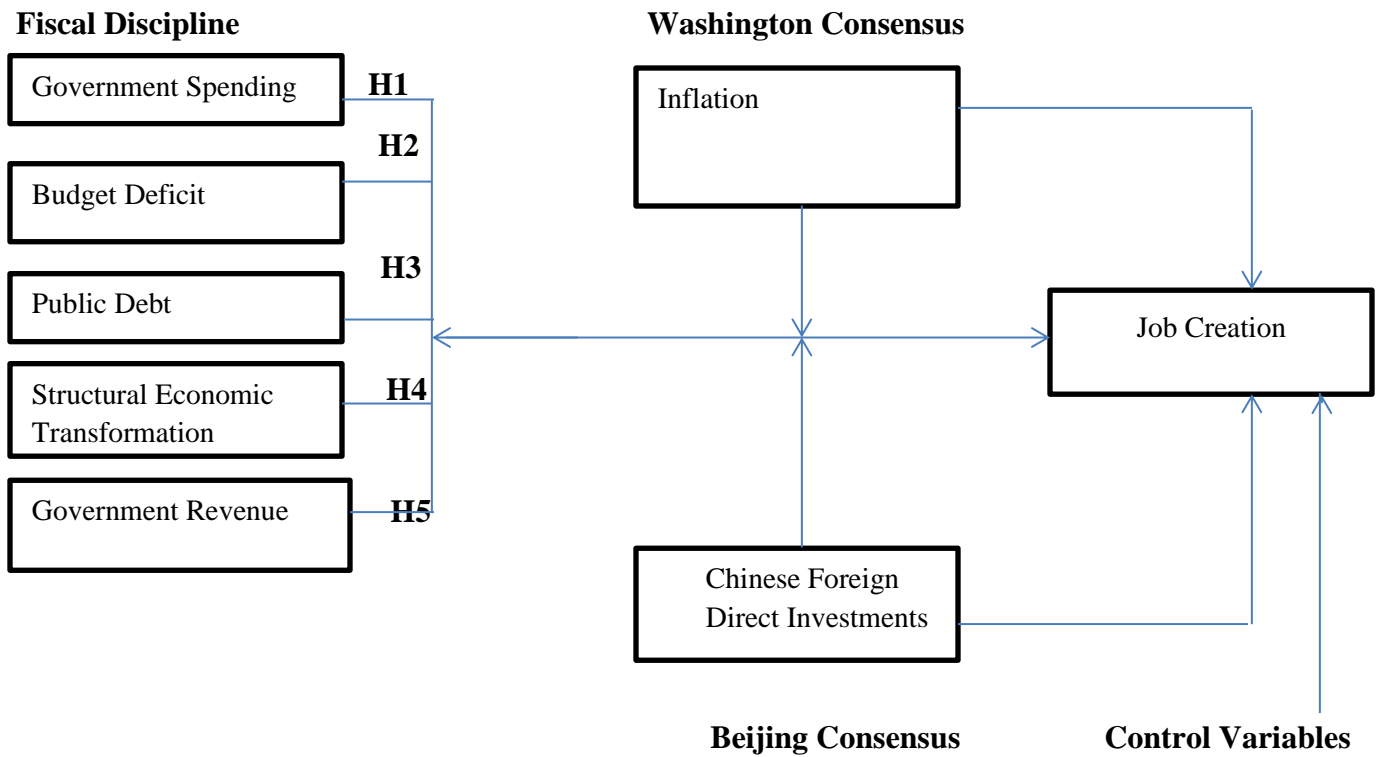
The conceptual framework for the study therefore views fiscal discipline as a multi-dimensional construct having both external and internal interactions with job creation. The external interaction of fiscal discipline relates to external loans and policy prescriptions by the IMF and China whilst the internal interaction of fiscal discipline with job creation focuses on government spending, revenue mobilization and taxation. It recognizes the fact that both the Washington and Beijing consensuses had

had effects on job creation in Ghana but the effectiveness of these two economic development paradigms differ in time and policy. Again, in an emerging economy such as Ghana, structural reforms are more important determinants of job creation. As such, the implementation of Ghana's economic reforms such as the economic recovery programme and the structural adjustment programme became increasingly important factors that affected job creation in Ghana.

The conceptual frameworks depict job creation as a dependent variable with fiscal discipline variables as independent variable. The constructs are conceptualized as follows:



(Author's own Construction, 2020)



(Author's own Construction, 2020)

## 2.19 Justification for the Use of Proxies

In this study two proxies have been used to represent the Washington Consensus Beijing Consensus.

### 2.19.1 Inflation as a Proxy for the Washington Consensus

The World Bank and the IMF implemented the Washington Consensus and focused on macroeconomic stability of Ghana. Macroeconomic policies were integral aspects of the consensus and contributed in no small measure to the implementation of the Washington Consensus. The macro-policies enabled developing countries such as Ghana to have a low inflation and a single-digit inflation rate as tolerable benchmark (World Bank 2003).

The Washington consensus was of the view that the most important single macroeconomic factor that is a necessary precondition for development is a stable domestic currency which is largely informed by inflation. Macroeconomic stability denotes low domestic inflation as well as a stable exchange rate and efficient functioning of the economic system. Interest rates and depreciation have direct relationship with inflation (Eichengreen and Hausmann, 1999). Inflation targeting framework was adopted by the Bank of Ghana to achieve price stability in order to stimulate economic growth. In an attempt to achieve several economic goals such as job creation and unemployment, there should be lower inflation. Inflation targeting is used by the Central Bank to forecast inflation; the forecast is compared with the target inflation rate and that informs how government should adjust the monetary policy to achieve economic stability (Eichengreen, Hausmann and Panizza ,2002). Accordingly, inflation has been used as a proxy to measure the extent to which the implementation of the Washington Consensus positively or negatively impacted on fiscal discipline and job creation.

### **2.19.2 Chinese Foreign Direct Investment as a Proxy For Beijing Consensus**

According to Ramo (2004), the Beijing Consensus refers to innovation-led development which is underpinned by technological transfer to developing countries, and sustainable development which involves strengthening public institutions, sustainable and equitable development which paves the way for improving the lives of the Ghanaians through job creation and reduction in poverty. It also calls for inclusive and balanced growth model that is shared so that the whole economy develops. This is

followed by self-determination which implies the ability of the Chinese to maintain control over policies and resources at their disposal. The principle of stability within the Beijing consensus meant that the Chinese fosters unity and operates within a stable environment for economic development to take off.

The Chinese believe in non-interference and do not apply any conditionalities to their loans. Over the past decade, the Chinese have transferred knowledge, skills, technology, through foreign direct investments and by 2020 happen to be Ghana's biggest trading partner in the world with the highest foreign direct investments. Again, the Chinese work in the strategic sectors of the economy such as agriculture, manufacturing, services, mining, information, communication and many more and thus contributing to job creation. For Instance, between 2000 and 2013, the foreign direct investment by the Chinese to Ghana was \$10 billion.

In the education sector, the Chinese in particular have supported the University of Ghana and Kwame Nkrumah University of Science and Technology in supply of books, and library development.

In 2008 Ghana received an amount of 40 million USD loan for a fish farming project. A similar assistance was extended to Ghana in 2012 by the Chinese government to help Ghana to undertake palm oil refinery project in Ghana. China supported Ghana in the area of information technology for the University of Ghana in a bid to help intelligent but disadvantaged people in remote areas to have university education through online programmes. Again, China helped Ghana to implement the Fiber Backbone Project, construct roads, dams and the Volta lake rehabilitation.

Ghana has benefited tremendously from many hospitals projected that have been implemented in Ghana through Chinese grants. These include the construction of infrastructure for the treatment of malaria in Korle-Bu Hospital and Teshie General Hospital and the district hospital in Ada. Others

include Burma Hall Complex and completion of the 37 Military Hospital, Accra Forces Mechanical Transport School, the Kpong Water Project completed in 2014. Ghana also benefited from Chinese grants in the construction of stadia. In 2006 Chinese companies constructed two stadia at Cape Coast at 100 million USD.

The Beijing Consensus has had a lot of impact on job creation in Ghana. China has since 1990 been supporting Ghana in road, dam construction trade and investments, ICT and many project related areas through Ghana's adoption of the Chinese development model. By December 2009, China was the leading Investor in Ghana. Tsikata (2008) stated that Chinese companies constituted 249 projects with a total of 60,000 jobs created by the Chinese in Ghana and represented 34% of total investment in the manufacturing sector and 19% in general trade and were valued at \$17.87 million (Tsikata et al., 2009).

Ramo therefore concluded that the Beijing Consensus has peculiar characteristics which are different from the Washington Consensus typically because it addresses the local conditions and circumstances of developing countries. Accordingly, Ghana has received a lot of foreign direct investment from the Chinese government to support infrastructure, education, social development, mining, agriculture, retail trading, etc. This assistance has either manifested in job creation or knowledge transfer. Chinese foreign direct investment has been used in this study as a proxy for measuring the extent to which the Beijing Consensus has positively or negatively impacted on fiscal discipline and job creation.

## **2.20 Propositions**

Ten propositions have been put forward to explain the impact of both the Washington and Beijing Consensuses on fiscal discipline and job creation in Ghana. Five propositions were tested against each Consensus.

### **2.20.1 Inflation as a Moderating Variable**

1. Inflation negatively moderates the relationship between government spending and job creation.
2. The negative relationship between budget deficit and job creation is moderated by inflation and the gap widens when there is no commitment on the part of the government to keep its activities within the prescribed parameters and is lower when there is discretionary spending.
3. The negative relationship between public debt and job creation is moderated by inflation
4. Structural economic transformation moderates job creation in such a way that the relationship is stronger when the transformation adds value to the economy and is lower when the transformation does not lead to value addition.
5. Inflation moderates' government revenue mobilization and job creation so that the relationship is stronger when more revenues are mobilized when there is macroeconomic stability and is lower when there is macroeconomic instability.

#### **20.2.2 Chinese FDI as a Moderating Variable**

1. It is hypothesized that the negative relationship between government spending and job creation is moderated by Chinese Foreign Direct Investments
2. The negative relationship between budget deficit and job creation is moderated by Chinese Foreign Direct Investment and the gap narrows when more Chinese foreign Investments are received and is lower when less is received.
3. The negative relationship between public debt and job creation is moderated by Chinese Foreign Direct Investments.
4. Structural economic transformation moderates job creation in such a way that the relationship is stronger when the transformation leads to more Foreign Direct Investments from China and is lower when the transformation does not lead to more Foreign Direct Investments from China to Ghana.

5. Chinese Foreign Direct Investments moderates' government revenue mobilization and job creation so that the relationship is stronger when government is able to attract more Foreign Direct Investments from China and is lower when government is able to attract less Foreign Directs Investments from China.

## **2.21 Empirical Review**

The empirical review examines the relevant literature on fiscal discipline and job creation. The degree to which fiscal discipline has impacted on job creation continues to attract empirical debate in developing countries and the underlying problem is the how the Washington and Beijing consensuses have influenced job creation outcomes in sub-Sahara Africa and especially in Ghana. The literature reveals that diverse views have been expressed by authors on fiscal discipline which encompasses government spending, debt management and government's commitment to comply with fiscal rules and fiscal institutions to reduce fiscal deficit.

Of these arguments, the common pool problem and the commitment of the government to be fiscally disciplined seem to be the predominant factor that affects job creation. Other authors such as IMF (2011) holds the view that deficit bias, mismanagement, corruption, political elections and the business cycle are the sources of fiscal indiscipline. According to Akerlof (1980) social norms can influence the government to achieve fiscal discipline. In this regard social norms and reputation can have effect on fiscal discipline. He suggested that the existence of the Stability and Growth Pact such as the European Union is a public social norm, and that a country's adherence to that norm is in fact a response to the need to preserve reputation among the other members of the European Union.

Past empirical evidence also varies greatly between Washington Consensus which underscores fiscal discipline and redefinition of public expenditure to stimulate growth on one hand and Beijing

Consensus which focuses on development without conditionalities and economic policy prescription on the other hand impacts on economic development of Ghana.

Another key issue which has been discussed extensively in empirical literature is the methodology for measuring job creation (Sparreboom and Gomis, 2015) because this has human resource and cost implications.

## **2.22 Ghana's Fiscal Performance**

Ghana's fiscal performance over the years has not been remarkable. Debt levels rise whilst expenditure has outstripped revenues, leading to budget deficit. This situation is further worsened during election periods. Since 1992 when Ghana returned to constitutional rule, the fiscal performance has consistently worsened from 1992, 1996 through to 2016. The state also invests its borrowed funds in social projects with minimal returns and this also contributes to the poor fiscal performance of Ghana.

According to the International Monetary Fund (2016), the economy of Ghana faced fiscal challenges as its GDP growth targets were not achieved (Abata et al., 2012). Part of the fiscal challenges being experienced in Ghana could be attributed to how its taxes and disbursements are coordinated amongst the spending units of the government, such as Ministries, Departments, Agencies, Metropolitan, Municipal and District Assemblies. The last two decades have been characterized by a remarkable and significant shift in expenditure due to excessive borrowing and budget deficits (Institute for Fiscal Studies, 2014). According to Fatas and Mihov (2005), Ghana's fiscal targets are often times not attainable as government fails to meet macroeconomic and revenue targets.

Again, among the major fiscal challenges being experienced in Ghana is the narrow fiscal space, declining foreign exchange earnings and deteriorating reserves. Since Ghana commenced the production of oil in commercial quantities, fiscal management has rather been volatile due to its

reliance on the world oil market prices. Expenditure that is linked to oil revenues has faced a huge burden of cyclicity as well as the swings in the oil prices which limit the ability of government to match its revenues and expenditures. The level of volatility of oil prices coupled with the poor management of oil revenue has made oil price a serious threat to fiscal consolidation. The commodity price crash in 2013 brought by global market conditions worsened Ghana's already volatile economic situation. One of the underlying causes of Ghana's rising debts can be ascribed to the sustained reliance on commodity exports. Again, the fiscal slippages and poor revenue mobilization from the unhelpful attitude of most taxpayers have been cited as another constraint to fiscal discipline development in Ghana. Poor leadership and weak institutional structures also contribute immensely to inadequate revenue flows leading to fiscal volatility (Frimpong and Oteng-Abayie, 2006).

### **2.23 Fiscal Policy of Ghana from 1957 to 1990**

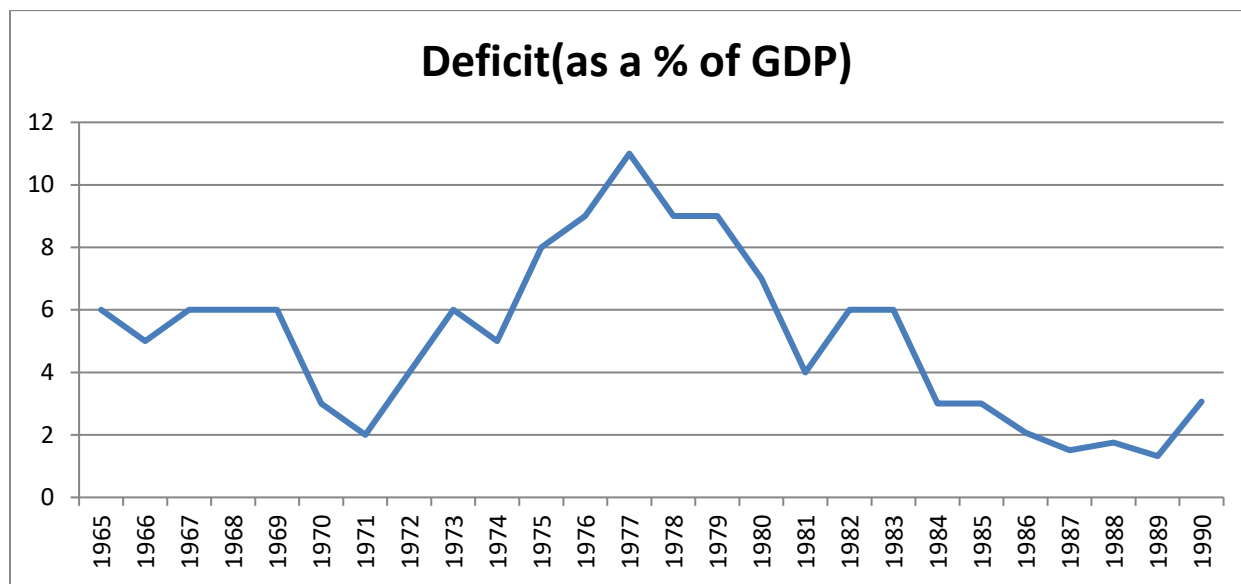
The literature review focuses on fiscal policy and how it has led to job creation in Ghana. It highlights the key drivers affecting fiscal policy performance from independence till now and assesses the trends, gaps and the determinants for the high incidence of fiscal deficit in Ghana. Most of the authors argue from empirical literature that Ghana has recorded massive fiscal deficits over the past sixty years as a result of reckless public spending and mismanagement by successive governments. Fiscal slippages constitute a key feature of government's fiscal policy over the years whilst government has missed its revenue targets. For a better appreciation of the literature, the discussion has been structured into various phases of fiscal development in Ghana since independence in order to understand the various policies and programmes implemented to strengthen fiscal policy and the impact it has had on economic development of Ghana over the years.

According to IMF (2012), Ghana had a checkered fiscal policy development since independence and the thrust of fiscal policy at the time was to complement monetary policy to achieve economic growth.

The evolution of fiscal policy in Ghana gradually grew from low budget deficit to a persistence fiscal deficit which affected the growth trajectory of Ghana and became difficult to control. In the seminal work of White (2013), government spending has been the main driver of deficits. The economy of Ghana underwent fiscal crises before the implementation of the Structural Adjustment Programme and Banking Sector Financial Reforms in the 1980s with fiscal deficit reaching 11.4% of GD (Kusi, 1990).

However, Tsikata and Amuzu (1997) highlighted poor revenue mobilization as a contributing factor for the huge fiscal deficits that were recorded in the 1960's and 1970s and argued that government could not match its spending against its revenue to narrow the focal deficit. Frimpong-Ansah (1991) indicated that Ghana there was a sustained deterioration in the balance of payments. Again, between 1966 and 1981, Ghana witnessed a military regime with political instability that stifled economic growth. According to (Fosu, 1990), the continuous deterioration in economic and fiscal performance led to the adoption of the economic recovery programme in 1983 to revamp the economy to address the excessive government spending as well as position the economy on a sustainable path. Privatization, liberalization and fiscal stabilization policies were introduced at the time to augment economic growth. From figure 1 below, the deficit of Ghana as a percentage of GDP was at 6% of GDP, grew to 11% in 1977 and reduced to 3% by 1990.

**Figure 2.1: Fiscal Deficit as a Percentage of GDP from 1965 to 1990**



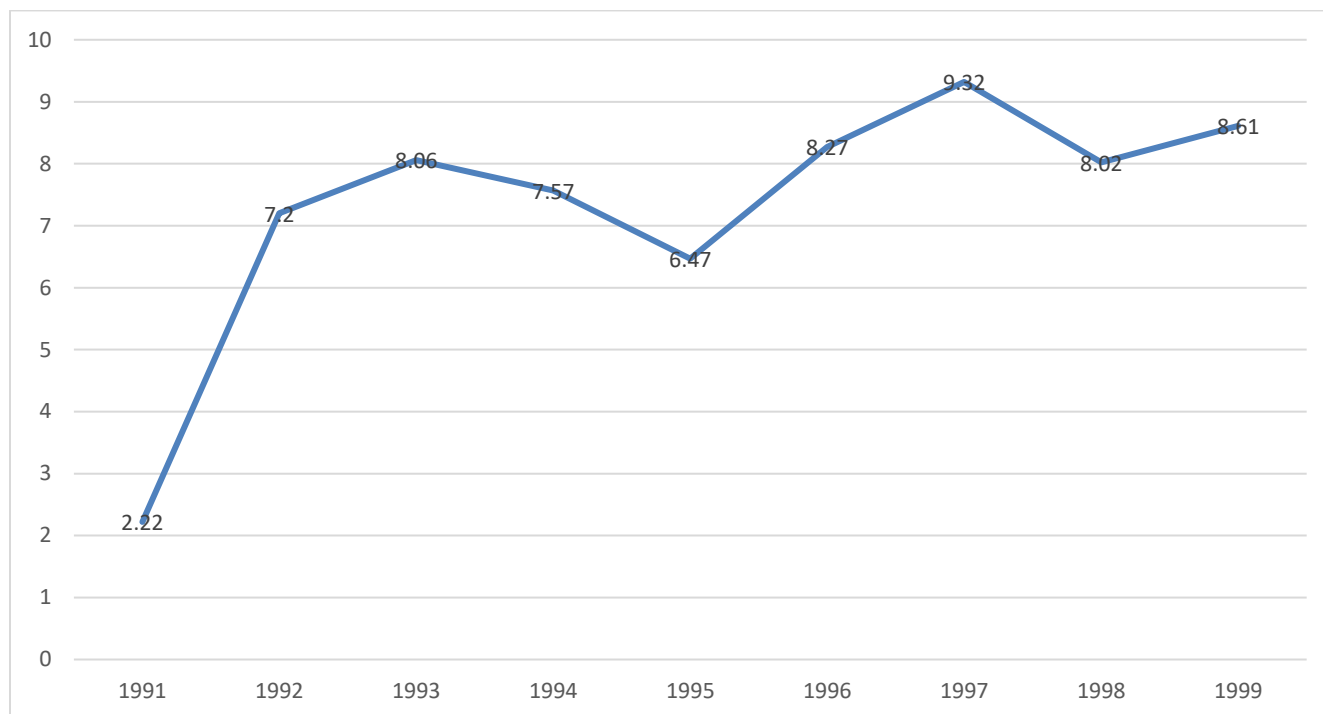
**Source: Annual Report of the Bank of Ghana**

#### **2.24 Fiscal Policy of Ghana from 1991 to 1999**

Ghana's fiscal performance from 1991 to 1999 was not remarkable. Debt levels have risen whilst expenditures have outstripped revenues, leading to budget deficit. This situation further worsened during election periods. Fiscal deficit as a percentage of GDP increased from 2.33% in 1991 to 8.06% by 1993 and subsequently to 9.32% in 1997 before reducing marginally to 8.61% in 1999 (refers to figure 2). Since 1992 when Ghana returned to constitutional rule, the fiscal performance has consistently worsened. What was more, the problem was heightened by the fact that the government did not invest its borrowed funds in social projects with higher returns and this contributed to the poor fiscal performance of Ghana. Banful (2010) contrasted this view and stated that the lack of effective budget monitoring was to blame for the widening fiscal deficits. Government took steps to implement stabilization of fiscal policy and culminated in the reduction of budget deficits to an average of 7.3 percent of GDP between 1991 and 1999. This feat achieved by the government did not last for long and government continued to over spend as revenue targets were not achieved. Domestic bond

issue was conducted from 1991 to 1997 to finance government's budget as a result of workers' agitation for increase in wages and salaries explained the growth in fiscal deficit.

**Figure 2.2: Fiscal Deficit as a Percentage of GDP from 1991 to 1999**



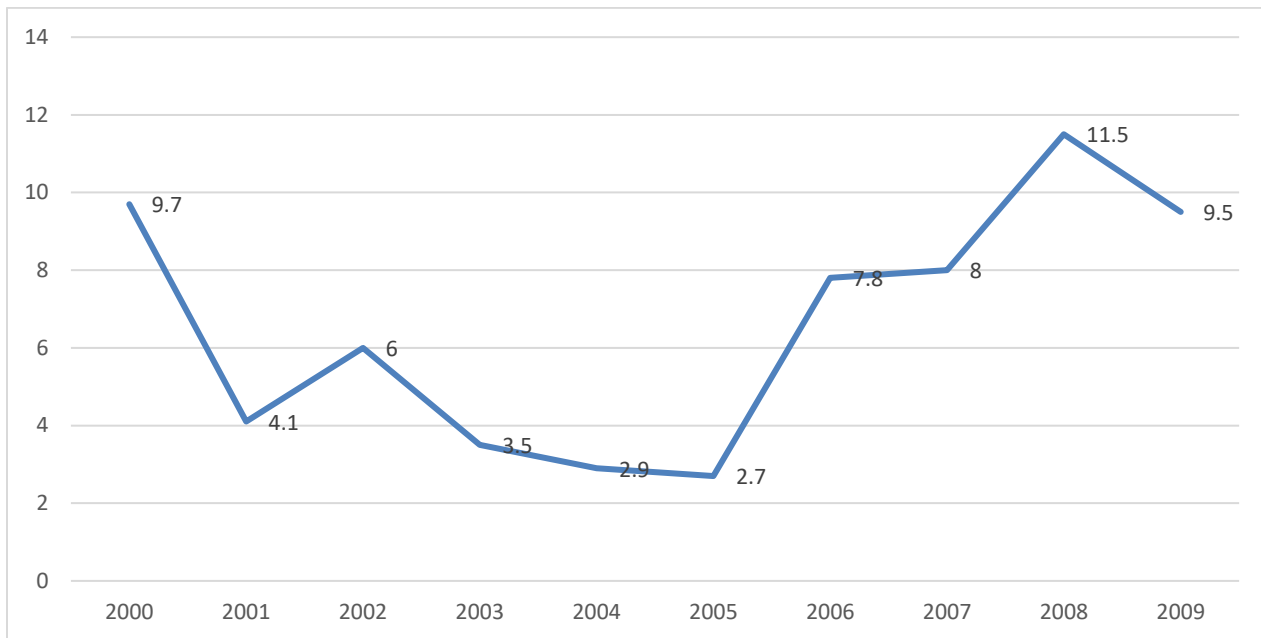
**Source: Annual Report of the Bank of Ghana**

### **2.25 Fiscal Policy of Ghana from 1992 to 2009**

The fiscal policy of Ghana from 1992 to 2009 focused mainly on debt management and fiscal sustainability as well as created the fiscal space for more borrowings. There was a huge decline in Ghana's external debt emanating from HIPC relief from \$6.1 billion in 2000 to 3.59 billion by 2007 and this positively impacted on its fiscal performance. Alagidede (2011) stated that the fiscal policy that was pursued by the government after the discovery of oil was an expanded spending. By 2008, the government had gone to the Euro market to borrow \$750 million at a coupon rate of 8.5% for 10 years.

Between 2001 and 2005, the fiscal deficit of Ghana was generally low, registering 4.1% and 2.7% respectively. During the credit crunch in 2008 however, fiscal deficit had reached 11.5% of GDP and marginally reduced to 9.5% in 2009.

**Figure 2.3: Fiscal Deficit as a Percentage of GDP from 1992 to 2009**



**Source: Annual Report of the Bank of Ghana, 2020**

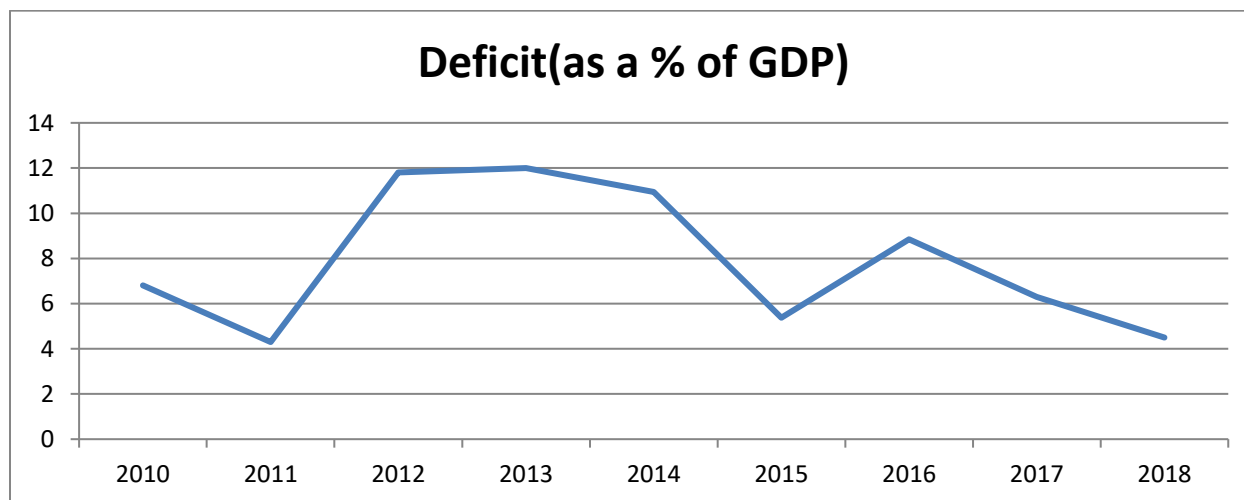
### **2.26 Fiscal Policy of Ghana from 2010 to 2018**

The fiscal policy pursued by the government of Ghana between 2011 and 2016 related to fiscal dominance where government's budget was financed by the Central Bank up to 10%. Thus in 2012, the net financing from central Bank was 18.8%. The fiscal dominance in monetary policy created excesses that needed to be checked. This led to the amendment of the Central Bank's Act to restrict government borrowing up to 10%. This greatly affected the independence of the Central Bank and monetary policy direction of Ghana (Akosah, 2015). Accordingly, fiscal deficit of Ghana recorded 6.8% in 2010, 11.8% in 2012, 10.94% in 2014 before reducing to 5% in 2018 (Refer to figure 4 below). Higher spending

alone does not stimulate job creation neither does it contribute to savings and investments. Arbitrariness sets in as a result of government's inability to balance its budget during the year. Again, fiscal decentralization contributes to fiscal indiscipline through the allocation of funds to Ministries, Departments, Agencies and District Assemblies. These government spending units spend more than they mobilize through taxation. The ability of the government to create jobs is linked to the extent to which disbursement of funds to the various entities is effectively managed and controlled (Rodden and Gunnar, 2003).

Ghana's growing public debts can be attributed to its dependence on commodity exports. Other causes include fiscal slippages; low tax revenue. Lack of commitment on the part of government as well as weak institutional structures have also played significant roles in fiscal volatility (Frimpong and Oteng-Abayie, 2006).

**Figure 2.4: Fiscal Deficit as a Percentage of GDP from 2010 to 2018**



**Source: Annual Report of the Bank of Ghana**

## **2.27 Fiscal Policy Options for Managing an Oil Economy**

Since 1990, the government has used three sources to finance its fiscal deficit. These included the inflationary financing, external borrowing and issuance of bonds in the domestic financial market. Unfortunately, external borrowing resulted in huge public debt with its effect on balance of payment whilst the issuance of domestic bond tended to raise interest rates and crowds out the private sector (Sau-Marful 2013). They suggested that the best option is to utilize oil revenues to offset government's borrowing.

Larbi (2012) contended this view and stressed that the best policy option for managing oil revenue was to inject fiscal discipline into the management of oil revenue in order to avoid the Dutch disease. He argued that the presence of the 'resource effect' could drive the government to overspend against the buoyant oil proceeds and this tended to affect the utilization of the oil resources in an economy (Fardmanesh, 1991). McMahon (1997) demonstrated that there was also the problem of 'spending effect' which affected fiscal policy (Corden and Neary, 1982).

More importantly, one of the key fiscal policy options was for the government to observe the enactment of a Fiscal Responsibility Law to inject fiscal discipline into the economy. This was to restrict government spending; reduce the rising debt to achieve fiscal sustainability.

## **2.28 Oil Revenues Management and the Fiscal Space in Ghana**

After the discovery of oil in commercial quantities, Ghana had high expectations of revenue inflow to support the excessive government expenditure. According to the World Bank (2009), Ghana's oil revenue was estimated at \$20billion for 20 years. This implies that at an estimated oil price of \$75 per barrel, Ghana's oil revenue was estimated at \$1bn per year. It was expected at the time that most of the oil revenue would be earmarked for socio-economic interventions such as construction of hospitals, roads, schools and implementation of poverty alleviation projects.

However, as noted by Larbi (2012) due to poor fiscal policies embarked on by the government, Ghanaians have not benefited from the oil revenue as expected. The fiscal space that was to be created as a result of the inflows of oil revenue was never done. As a result, fiscal policies were pursued to support Ghana against a fall in commodities prices at the world market.

One of the key features of Ghana's fiscal policy has been uncontrolled government expenditure. Even though the discovery of oil and the subsequent mobilization of oil revenue will bring some reliefs to the economy, the inability of Ghana to improve on her fiscal governance to ensure effective allocation and utilization of public resources still remains a problem. Again, Ghana needs to strengthen its fiscal institutions, set fiscal rules and fiscal responsibility law to restrain government expenditure. The passage of the fiscal responsibility law and the establishment of the fiscal Council will go a long way to improve the fiscal policy management for oil and gas. Fiscal discipline is required to effectively manage natural and gas resources in Ghana. Poor investments and debt repayments have characterized the fiscal policy stance of Ghana. This has negatively impacted on economic growth, job creation and poverty alleviation.

There is the presence of resource curse as Ghana has not benefited from the oil discovery. The weak fiscal framework, budget indiscipline and lack of political commitment create serious fiscal policy issues for the Ghanaian oil and gas sector. Since 2012, Ghana has been borrowing from the Eurobond Market to finance its infrastructure. Other borrowings have come from the World Bank and IMF at concessionary rates. The rising public debt makes it difficult for the government to borrow on non-concessional terms against future oil revenues for fiscal consolidation. It can therefore be said that the huge fiscal deficit can be attributed to procyclicality, common pool problems and political elections. In fact, one of the striking features of Ghana's fiscal performance over the past 60 years has been poor fiscal performance resulting from political elections.

Again, the inability of the government of Ghana to effectively repay its public debt has led to the call by some stakeholders to use oil revenues to pay the public debt so that Ghana can have a new lease of life to start with its economic development agenda.

### **2.29 Public Financial Management Act and Fiscal Discipline in Ghana**

The overall aim of the Public Financial Management Act is to infuse fiscal discipline and reduce corruption and mismanagement within the public sector. Secondly, the Act seeks to enhance budget management, financial control and reporting of the Government of Ghana. To this end, it seeks to promote fiscal discipline, strategic allocation of resources and allocate efficiency, through strengthened systems, controls, procedures and targeted capacity building. Lastly, the Act focuses on the design of a strengthened budget framework that will support medium term forecasts of government and build ministries, departments and agencies (MDA) capacity to fully understand the implications, sanctions and consequences of non-compliance with the Act.

### **2.30 Fiscal Discipline: Rules Rather Than Institutions**

The view has been expressed that fiscal institutions tend to do better than fiscal rules. The lack of fiscal discipline has a natural tendency to affect the relationship between the benefits from government spending and the taxes that individuals and interest groups receive and pay accordingly. The effect is that in terms of budget preparation and execution, the government's expenditure should be controlled. The irony of the situation is that policymakers who should be controlled are the very ones who determine which expenditures should be constrained. Two broad classes of solutions are possible: institutions that shape the budgetary process and quantitative rules that set limits. The increasing importance with both institutions and rules is disappointing, for reasons that often seek to balance each other. From a balanced perspective, it is better to combine rules with institutions to get the desired results. Wyplosz (2005) argued for the case for fiscal discipline

institutions as the main anchor for controlling government expenditure. The logic is rooted lack of political commitment that gives discretion to politicians. The rules versus institutions debate suggest that neither rules nor discretion can be used to achieve optimal balance in government spending particularly in the face of economic shocks and vulnerabilities. This explained the rationale for the adoption of inflation targeting policy by the central banks and why they should be politically independent (Svensson, 2005).

### **2.31 Political Commitment and Job Creation in Ghana**

One of the most important factors that affect fiscal discipline and job creation is political commitment. To avoid policy discretion and arbitrariness, government must play a key role in ensuring that the economy is on sound footing (Mohanty, 2003). Government must strive to achieve a balance of not going for loans by relying on its revenue mobilization to fund most of its projects domestically. In the same way, government should control its spending within the Ministries, Departments, Agencies, and District Assemblies (Rodden and Gunnar, 2003). Larbi (2012) mentioned that fiscal discipline entails balancing government's fiscal resources including reducing fiscal deficit and improving the economy ( Hagen and Harden, 1995).

### **2.32 Macroeconomic Stability and Job Creation**

Macroeconomic stability has some impact on job creation (Baah-Boateng, 2013). However, the extent to which macroeconomic stability would help boost job creation depends on the soundness of these macroeconomic fundamentals. Where the fundamentals are good, they tend to support job creation. Conversely, there are high levels of borrowings with its underlying fiscal deficit, job creation becomes difficult.

IFC (2013) contended that job creation should be assessed from demand perspective and elasticity of employment. In terms of elasticity of demand what works in practice is that for each growth in GDP,

there is a correspondent growth in job creation. Job creation is bigger when the demand is elastic. Similarly, using job creation multipliers, it is possible to focus on total jobs that have been created in the economy through an increase in demand (Baah-Boateng, 2008).

In line with Okun's coefficient, Khan (2007) indicated that the relationship between GDP growth and job creation was estimated at 0.7 of GDP for developing economies. At the global level, the relationship between employment and GDP is estimated at 0.3 in 1991. This increased to 0.38 by 2003. As a general rule, for every 1% growth in GDP, job creation increases by 30% in an economy (Kapsos, 2005).

Basnett and Sen (2013) posited that fiscal discipline affects job creation. To get a fuller picture of how fiscal discipline influences job creation, special emphasis should be placed on the manufacturing and agriculture sectors because these sectors have the tendency to create jobs. For instance, the agriculture sector can create jobs because about 40% of workers in Ghana are found within the agricultural sector. However, manufacturing tends to create more jobs than agricultural sector due to value addition. Melamed, Hartwig and Grant (2011) contended fiscal discipline and job creation are related. They conducted a research in 24 developing countries in Africa from the 1980s, 1990s and 2000s. It was established that job creation occurs in the services sector more than the manufacturing sector. They argued that the services sector has seen growth over three decades. In terms of measuring the impact of fiscal discipline on job creation, the study revealed that 18 out of the 24 countries that were sampled witnessed gradual improvements in their standard of living, 15 saw a growth within the services sector, 10 recorded employments from industry whilst six reported growths in jobs in three of the sectors. However, Kapsos (2005) contrasted this position and mentioned that from a historical perspective, job creation within the services sector occurs at 0.61 percent in most cases.

### **2.33 Government borrowing, Spending, Debt Management and Job Creation**

The impact of debt management on job creation has well been established in literature. Whilst a reduction in debt contributes to job creation, government borrowings and spending have become the main drivers of fiscal indiscipline (Kumar and Ter-Minassian (2007). Hou Willoughby (2010) opined that fiscal discipline drives job creation and pointed out that political commitment further strengthens the argument that government has a lot to do to maintain fiscal discipline in an economy.

Alesina and Ardagna (2010) contended that governments must implement sound fiscal policies to contribute to low budget deficit. It has the potential to reduce public debt as well as contribute to growth in GDP by 4%.

Fosu (1996) demonstrated the link between debt management and job creation using multiple regressions and established that the presence of fiscal indiscipline negatively affects job creation in several developing countries in Africa. As a result of debt repayment, GDP reduces by 1%.

Manasse (2006) argued that fiscal rules have positive impact on debt management in most parts of Europe. He found that fiscal rules tend to positively impact on primary balance as well as budget deficit. It was revealed that the existence of fiscal rules contributes to the reduction in fiscal deficit.

There is an avalanche of empirical literature in the area of government spending, debt sustainability and economic growth. Kwakye (2012) indicated that Ghana's reliance on both external and domestic borrowings to support its infrastructure development saw its debt rise over the years, reaching over 100% of GDP in 2000.

In an article titled, "*A Short Note on Public Debt Sustainability in Ghana*" the IMF (2001) opined that, even though the HIPC Initiative has been very successful in Ghana, there is the general recognition that, bringing a single debt measure down to a critical threshold at a single point in time is no guarantee against future debt problems. As noted by the IMF, "a debt relief under the HIPC

Initiative provides a basis, but not a guarantee for long-term debt sustainability in HIPC countries such as Ghana. While the debt relief granted under the HIPC Initiative substantially reduced the debt service due on existing debt, maintaining debt sustainability will also crucially depend on future macroeconomic policies, economic growth performance and financial assistance from donors.

According to Kusi (2016), Ghana's public debt has deteriorated in recent times and increased overall debt vulnerability. Interest payment represents about one third of Ghana's revenue leaving little savings. Bailey (2002) described pension payments and capital expenditure of government as the main drivers of fiscal deficit. This is further accentuated during election periods.

According to Kumar and Woo (2010) one of the challenges assigned with higher debts burden is the interest serving costs. Higher long-term interest rates, resulting from more debt accumulation will jeopardize the economic growth prospects of Ghana. From the review of extant literature, four distinct conclusions can be drawn from the relationship amongst government spending, debt sustainability and economic growth. However, the relationship has been described variously by authors as positive, negative and no relationship.

In line with the three theories in economics that focuses on government spending, debt sustainability and economic growth namely Neoclassical, Keynesian and Ricardian, the Neoclassical economists hold the view that government spending and debt sustainability are injurious to economic growth. According to Keynesian theory, government spending induces economic growth (Rahman, 2012) whilst the Ricardian theory regards government spending and budget deficit are necessary for correcting revenue adjustments in an economy which occurs in the long run whilst the Keynesian view focuses on the short-run relationships (Van & Sudhipongpracha, 2015).

Extant literature exists on the nexus between government spending and economic growth but is replete with diverse relationships, some suggesting uni-directional whilst others point to bi-directional

relationships. Mohanty (2012) demonstrated this relationship through the use of integration, Granger Causality test, as well as Vector Error Correction Model to investigate both the short-run and long-run association between government spending, debt sustainability and economic growth from 1970 to 2012 in India and the results of the study indicated that there was a negative correlation between government spending and economic growth in the long run. The findings further pointed out that in the short run, the association amongst government spending and debt sustainability was not significant.

Using ARLD model, Rahman (2012) conducted a study to examine the correlation between debt sustainability and economic growth in Malaysia from 2000 to 2011. Consistent with the Ricardian theory, the findings indicated that there was no connection between government spending and economic growth. Rather, the study found out that prudent spending by the government is correlated with economic growth.

Cinar, Eroglu and Demirel (2014) also used a panel ARDL model to investigate debt of the European Union and budget deficit in 2008 and came to the conclusion that deficit has a positive correlation on economic growth in the short term.

Akosah (2013) similarly conducted a study to examine the relationship between government spending, debt sustainability in Ghana and economic growth and found that there is a negative relationship between government spending and economic growth particularly when the government overspends its budget in the long run but had positive relationship in the short run.

One of the key issues in measuring debt sustainability has been the variables that should be used. Some of the key indicators are concepts that relate to a country's ability to repay its debt. According to the World Bank (2001), debt threshold analysis such as expressing the debt of a country to its gross domestic product or exports looks at the ability of the country to service her debt with its foreign exchange earnings. In recent times the relationship between a country's revenue and debt ratio is

significant in that it measures the ability of the country to mobilize domestic tax revenue to service the external debt.

In dealing with debt indicators one thing is clear that no single indicator can measure debt sustainability comprehensively. It is very important to consider a number of debt sustainability indicators when one is examining debt sustainability in the long term. A review of the literature suggests that in terms of the association between government spending and economic growth, particularly when debt sustainability is introduced, as a moderating variable. Evidence from the empirical literature is not conclusive and therefore the study sought to provide additional tools methods and techniques for examining government spending, debt sustainability and economic growth in the context of Ghana.

Also, various empirical studies on government spending and job creation have even conflicting findings. Kneller et.al. (1999) investigated the association between government spending debt and economic growth and found that government spending can influence economic performance outcomes of an economy. Thus, an increase in government spending will impact negatively on economic job creation unless the new borrowings are tied to projects with superior social returns. A reduction in government spending will contract the economy and will eventually lead to a low GDP growth rate. This relationship is particularly important when it is linked to the duration of fiscal policy management (Eminier, 2015).

More specially, the effect of government expenditure on job creation can be traced through a number of channels such as public and private investments, taxation, transfer payment and income distribution (Njuguna, 2009). However, evidence from theory indicates that government expenditure has a positive correlation on economic growth (Kim and Mei, 2014). Todaro and Smith (2010) defined economic growth as a multi-dimensional construct encompassing a reduction in interest rate, inflation, stable exchange rate low depreciation, an increase in per capita income and changes in social structures,

employment, infrastructure, reduction in inequality and the eradication of poverty. The overriding goals of economic growth are to enhance availability and allocation of economic resources and improve the general well-being of the people to maintain macroeconomic stability.

However, allocation of budget to the educational and agricultural sector has been quite monumental because of the Free Senior High School, Planting for Food and Jobs as well as One District One Factory. Education Ministry's budget for 2012 was estimated at four percent of GDP and translates into \$3.4 billion in 2012 to 6.18 percent of GDP in 2014 and this exponentially increased to 10% of GDP in 2018 as a result of the implementation of the Free Senior High School programme (World Bank Report, 2018). The growth of Ghana's Gross Domestic Product (GDP) over the past five years is 5% implying that the expenditure of the government has outstripped the growth in GDP. The causes of low economic growth have long been attributed to excessive government spending, unaccompanied by an increase in productivity.

Rising debt levels and high expenditures by the government of Ghana have plunged Ghana into macroeconomic instability (Owusu-Nantwi and Kuwornu, 2011). Again, economic growth in Ghana has remained relatively unstable notwithstanding the increase in government expenditure. The government of Ghana spends large amount of money on all the various sectors in the economy namely, education, health, physical infrastructure, recurrent expenditure and transfer payments. The purpose of the study is to empirically investigate the moderating role of fiscal governance and institutions on government spending and economic growth, by examining various government expenditures units and their effects on growth of gross domestic product and to discuss the policy implications.

During the first republic, Ghana devoted attention to socialism as the best policy option for developing the state. At that time, government could spend so long as it was considered necessary, regardless of its impact on debt accumulation and economic growth (Larbi, 2012).

Kusi (2016) demonstrated that government spending goes up during election period and is a major contributory factor to the fiscal deficit being experienced by Ghana today. Ghana's fiscal deficit increased from 5% of GDP to 9% of GDP by December 2016. Recent studies, however, utilize country-specific approach or cross-country multivariate techniques with limited time horizons to examine the association between debt to GDP and economic growth.

In recent times, however, the debate on government spending and economic growth has been shifted to the role played by fiscal and monetary institutions since they moderate government spending and therefore set limits on expenditure of the government.

A review of available literature indicates that the existence of a proper institutional framework can have serious effect on the development of the budget processes, including the submission of inputs and the use of top-down framework to produce better fiscal results. This tends to reduce government spending and budget deficit and therefore there is a positive relationship between fiscal institutions and fiscal performance (Debrun & Kumar, 2007). Effective participation of fiscal institutions in the development and implementation of budget will bring about greater transparency and prudence in government spending (Hallerberg et. al., 2009). Again, institutions ensure that corruption and public waste are checked (North, 1990).

Proponents of Budgetary Institutions have advocated that government budget should be properly developed and implemented to reduce borrowings. They argued that the inclusion of fiscal institutions in the determination of economic growth is important since specific rules, structures systems and regulations relating to budget designs will be determined, process and procedures dully followed, the budget policy approved by Parliament whilst implementation is monitored and controlled.

Contrary to the Budgetary Institutions perspective, there have been series of supplementary budgets that have been submitted to Parliament for approval by the various Finance Ministers of Ghana for the past five years. This undermines fiscal discipline, fiscal transparency and governance, and further cause fiscal slippages in the economy (Alt, Lassen and Rose, 2006). Debrun and Kumar (2007) argued that the inability of Budgetary Institutions and their agencies to exercise strict oversight over budget implementation is the direct result of poor fiscal governance performance in most African countries. Thus, the quality of Budgetary Institutions will influence fiscal outcomes, such as government spending particularly when they are situated within the macroeconomic and political contexts (Fab and Mody, 2006).

The question this study seeks to attempt to answer is whether government spending influences debt to GDP, macroeconomic stability and therefore economic growth of Ghana. The general view is that excessive government spending affects debt management, macroeconomic stability and the overall fiscal health of Ghana. Also, government expenditure on capital expenditure and human capital are positively related with economic growth in the long run (Kneller, 1999). Government could have both direct and indirect effect on economic growth through an increase in aggregate production from the private sector. Growth obstruction between government spending and economic growth can be ascribed to increased revenue mobilization from taxation (Musgrave and Musgrave, 1989).

Conversely, government spending has a positive effect on economic growth when government spending is related to productivity. The form of government spending and the various channels of spending trigger the growth mechanism (Bleaney et al, 2001).

A direct effect relates to an increase in the economy's capital stock (physical or human) reflecting higher flows of government funds. Government expenditure on education and health, contribute to an

increase in the stock of human capital. Similarly, to the extent that they trigger an accumulation of physical capital, most government expenditure on infrastructure falls in the category of having a direct impact on growth (Barro and Sala-I-Martin, 1992). In addition, government expenditure can also contribute indirectly to economic growth by increasing the private sector investments (Stiglitz and Bruce, 2014).

Depending on the channel of growth, government expenditure could have either a positive or a negative effect on economic growth. The first channel of growth is the direct relationship between government spending on education and health leading to positive impact on economic growth. The second channel relates to the impact of government spending on economic growth through production of goods and service which is positive. The third channel of growth focuses on the interrelationship between government spending and demand for goods and services. The last channel is the focused strategy of the government which transfers funds to one sector more than others (Agenor, 2007).

In this regard, the current study would employ a structural equation model to assess the effect of increased expenditure on job creation. The study is aimed at determining the effect of government spending on debt to GDP given the fact that Ghana's debt level is impacting negatively on its job creation.

Acemoglu et al. (2003b) conducted a study to investigate the causal relationship between government spending and macroeconomic stability and found that inflation, interest rate, debt to Gross Domestic Product (GDP) and savings are positively correlated. Easterly et al. (2004) on the contrary argued that government spending has negative effect on macroeconomic stability on job creation in the long run.

### **2.34 Government Spending and Job Creation**

There is an avalanche of empirical literature on government spending and economic growth from both the developed and developing countries. However, there is diversity in the literature due to the various socio-economic circumstances in the various countries, the stage of development of a particular country, the burgeoning challenges, the methodologies used and specific time frames within which these research works were conducted.

Owyang and Zubairy (2013) conducted a study in the United States of America to establish the relationship between government spending, the role of budgetary institutions in controlling national budgets and economic growth and found that government spending is moderated by budgetary institutions who are able to check the spending habits of the government. (Murphy, 2015) argued that government spending leads to an increase in the demand for goods and services in the USA. Alexiou (2009) supported this assertion that government spending can positively affect economic growth especially when it is channeled through the right sectors of the economy. However, government spending leads to high debts which creates macroeconomic instability. Similarly, Bose et al. (2007) examined the government spending economic growth nexus in over thirty countries across the world and his findings revealed that higher government spending stifles economic growth and brings about debt accumulation.

Kolluri and Wahab (2007) found that government spending goes up during economic recession whilst government spending increases when there is economic boom. This confirms the theory in practice especially in the European countries which have both developing and developed economies. Nevertheless, for economies in Europe that were mostly developed, evidence of elasticity to economic growth was weak. In a similar study conducted by Hamzah (2011) in Malaysia from 1970 to 2007, he established the relationship between government spending and economic growth and his findings were

that an increase in government spending will give a positive corresponding effect on economic growth. However, the study did not find any conclusive evidence between government spending on social services and economic growth. Moreover, this investigation showed mixed results indicating that out of the eleven sectors in the economies he studied only three, namely, transport health and public are the drivers of economic growth. He however noted that poor efficiency in these three sectors tends to affect economic growth in a negative way.

Loto (2011) investigated government expenditure and economic growth relationship in Nigeria from 1980 to 2008. The study specifically concentrated on government expenditure within the five sectors of the Nigerian economy, such as health, security, education, communication, agriculture and transportation.

Gisore et al. (2014) indicated that government spending in the areas of health and defense has a positive impact on economic growth in East Africa. The findings were based on a study he conducted from 1980 to 2010.

The findings revealed that in the short term, government spending will positively affect health, national, security, transportation and communication but negatively affect the growth of agriculture.

D'Agostino et al. (2016) demonstrated that an increase in government spending will influence corruption in a country. This implies that corruption will have an adverse effect on economic growth. The study further revealed that government spending leads to economic growth, but huge military spending negatively affects economic growth. Also, Butkiewicz and Yanikkaya, (2011) and Arpaia and Turrini (2008) respectively, pointed out that government spending has negative impact on economic growth in the long run based on the research they conducted in Europe.

Another study conducted by Chude and Chude (2013) examined the relationship between government spending on education and economic growth in Nigeria from 1977 to 2012. The findings revealed that there is a positive correlation between government spending on education and economic growth in Nigeria over the long-term. However, the implication of the study was that budgetary institutions have a role to play to ensure that budget allocated to the Education Ministry was properly utilized.

In contrast, Gisore et al., (2014) contended that government spending on agriculture and education has no relationship. Instead the authors concluded that government must spend more on health and defense to enhance economic growth. However, they advocated for smaller allocation of budget to be extended to the other sectors of the economy. Meanwhile, Ndjokou (2013) assessed the link between fiscal policy and growth.

According to Georgantopoulos and Tsamis (2011), government spending induces economic growth through efficient allocation of resources in an economy. However, Lopsided and Vamvoukas (2005) argued that excessive government spending leads to a budget deficit which will eventually create a gap which will necessitate borrowing to fill the gap. Other studies conducted by Bentahar & Cameron (2015) indicated that there is an inverse relationship between government expenditure and economic growth. This bi-directional approach implies that the relationship can be positive or negative depending on the size of the government, the debt threshold and the extent of borrowing. This two-directional approach to the study of government spending, debt sustainability and economic growth can be explained as follows:

In the first place, the bi-directional approach implies that government expenditure can be high or low and this can influence the extent of debt accumulation and its overriding effect on economic growth. Secondly, there is the implicit assumption that economic growth leads to more debt accumulation

(Odior, 2011). Thirdly, the relationship can be uni-directional. This suggests that for government spending to have a negative or positive relationship with economic growth, there should be some causal relationship. Fourth, in the view of some economists and in line with empirical literature, the bi-directional relationship in most cases is negative (Abu-Bader & Abu-Qarn, 2003).

According to Kusi (2016) Ghana's public debt has deteriorated in recent times and increased overall debt vulnerability. Interest payment represents about one third of Ghana's revenue leaving little savings. Bailey (2002) described pension payments and capital expenditure of government as the main drivers of fiscal deficit. This is further accentuated during election periods.

Cinar, Eroglu and Demirel (2014) also used a panel structural equation modeling to investigate debt of the European Union and budget deficit in 2008 and came to the conclusion that deficit has a positive correlation on economic growth in the short term.

Akosah (2013) conducted a study to examine the relationship between government spending, debt sustainability in Ghana and economic growth and found that there is a negative relationship between government spending and economic growth particularly when the government overspends its budget in the long run but had positive relationship in the short run.

### **2.35 Fiscal discipline as a Social Norm and its impact on Job Creation**

The first strand of literature relates fiscal rules theory points out how government spending could be restrained to create jobs. Georgantopoulos & Tsamis (2011) contended that government spending will continue to increase unless there are fiscal rules to restrain government spending. Underlying the fiscal rule theory is the existence of the common pool problems that induce deficit bias which make it sometimes difficult for fiscal policy restrictions to be effected to achieve economic growth because of the presence of procyclicality bias in fiscal policy (Holm-Hadulla, Hauptmeier and Rother, 2010). This provides the theoretical basis for the association between government expenditure and cyclical

performance (Gali and Perotti, 2003) and requires the utilization of fiscal rules to constrain government from further deteriorating macroeconomic instability.

Another assumption is that beneficiaries of government expenditure do not fully account for the cost so that their tax obligations are lower than government spending. The fiscal rules theory holds the view that fiscal discipline problems require internalization of this externality with fiscal rules and institutional coordination of fiscal policy (Kopits, 1995).

Similarly, the fiscal rule theory is rooted in social norms and the stability growth pact that must be followed by government to achieve reputation and credibility. According to Akerlof (1980) social norms can play a critical role for helping government to achieve fiscal discipline. If the aim of the government is to maintain a good reputation which could be used as the basis for future negotiations, there is the tendency that the government will obey a norm that is not sufficiently helpful, but is the norm followed by previous governments.

Fitoussi and Saraceno (2007) stated that Stability Pact enables governments to borrow from its member union to run a budget deficit and this tends to raise interest rate in the home country with its effects on consumption and investments. Again, the fear of threat and sanctions from a member union will compel the government to obey the norms of fiscal discipline. The presence of a social norm becomes an incentive for enhancing social welfare and economic well-being. Also, the argument of the Stability and Growth Pact form the basis for using fiscal discipline as a social construct and explains why governments adopt procyclical policies in times of low economic growth (Heipertz and Verdun, 2004).

Fitoussi and Saraceno (2007) stated that stability pact enables governments to borrow from their member unions to run a budget deficit and this tends to raise interest rate in the home country with its effects on consumption and investments. Again, the fear of threat and sanctions from the member

union will compel the government to obey the norms of fiscal discipline. The presence of a social norm becomes an incentive for enhancing social welfare and economic well-being. Stability and growth pact could also form the basis for using fiscal discipline as a social construct to explain why governments do not overspend (Heipertz and Verdun, 2004).

**Table 2.6: Shows a Summary of Studies on the Relationship between Fiscal Discipline and Job Creation**

<b>Topic</b>	<b>Author</b>	<b>Method</b>	<b>Country</b>	<b>Findings</b>
1. Job Creation and Job Destruction in the Theory of Unemployment	Mortensen and Pissarides(1993)	<i>Simulations and Poison Distribution</i>	USA	The job destruction process is shown to have more volatile dynamics than the job creation process. Also, aggregate shock process proxies reasonably well the cyclical behaviour of job creation and job destruction in the United States.
2. Testing Theories of Job Creation: Does Supply Create its own Demand?	Carlsson et al, (2006)	GMM	Spain	The results support demand-oriented theories of job creation, whereas we find no evidence in favour of the search-matching theory.
3. Understanding Ghana's growth success story and job creation challenges	Aryeetey and Baah-Boateng (2015)	Linear Regression ARDL	Ghana	Fixing the problem of the missing middle of dwindling manufacturing and raising productivity in agriculture is recommended for the promotion of growth inclusiveness.
4. Skills Development for Economic Transformation in Ghana.	Baah-Boateng and Baffour-Awuah (2015).	OLS	Ghana	Findings indicated that companies should participate in industry in curriculum design and development of internship mechanisms to curb unemployment problem in the long run
5. Fiscal Discipline as a Capacity Measure of Financial	HOU(2002)	Descriptive study	USA	The study holds that strong fiscal discipline builds up financial management capacity which contributes to sound governance

Management by Sub-national Governments				at subnational levels. The study's purpose is to develop a capacity measure of governmental financial management that can be applied across countries.
6.Fiscal Rules in Times of Crisis	Bandaogo(2020)	Generalized Method of Moments (GMM)	Malayasia	Research shows that the de facto strength and credibility of the fiscal rule is what matters for fiscal discipline—not the mere de jure existence of one. As important as it is that fiscal rules include contingencies to accommodate large and effective fiscal responses to severe and unprecedented crises, it is also as important that fiscal rules provide clear guidance for building up savings in times of positive shocks.
7.Fiscal discipline and the cost of public debt service	Ardagna et al (1998)	Vector auto regression (VAR)	Germany	Fiscal imbalance has its greatest impact at home, it is also a legitimate concern at the level of the world economy
8. Fiscal discipline as a social norm	Fitoussi (2007)	Johansen Co-integration and Granger Causality tests	Nigeria	The directions of causality between economic growth and the selected determinants are mixed—unidirectional, bilateral and independent
9. Ghana: fiscal policy responsiveness, persistence and discretion	Loloh (2011)	Two Stage Least Squares (2SLS)	Ghana	The results show that while government revenue is more responsive to output conditions than government spending, government expenditure is more persistent than government revenue.

10. Public debt and economic growth in Ghana	Owusu-Nantwi and Erickson(2016)	ARDL, Johansen cointegration and the vector error correction model	Ghana	The endings from the study reveal a positive and statistically significant long-run relationship between public debt and economic growth There is a positive relationship between high debt and economic growth in the long run
11. The Government Revenue and Expenditure Nexus: The Sustainability of the Implementation of the Single Spine Salary Structure in Ghana	Abavare (2016)	Engle-Granger two step method, Johansen cointegration vector error correction models and ordinary least squares regression	Ghana	The results demonstrate that the long-term sustainability of the single spine salary structure would be in looming doubt if government does not take pragmatic steps to improve its revenue
12. Improving Fiscal Management in Ghana	Amo-Yartey (2020)	conditional legit regression approach	Ghana	Fiscal rules do not operate in isolation and require supporting institutions and reforms to deliver the anticipated outcome
13. Modelling exchange rate Volatility: A forecast Evaluation	Abdulai (2017)	General to specific modelling(GETS)	Spain	Our findings suggest that GETS specifications perform comparatively well in both ex post and ex ante forecasting as long as sufficient care is taken with respect to the functional form and the way in which the conditioning information is used. Also, our forecast comparison provides an example of a discrete time explanatory model being more accurate than the realised volatility ex post in 1-step-ahead forecasting.
14. Automated Model Selection in Finance: Gets modeling of mean, variance and density	Sucarrat and Escribano(2010)	General-to-specific modelling(GETS)	Spain	The finite sample properties of the methods and of the algorithm are studied by means of extensive Monte Carlo simulations, and three empirical applications suggest the methods and algorithm are very useful in

				practice.
15. Cross-Section Regression with Common Shocks	Andrews (2005)	Cross sectional regression, General to Specific modelling (GETS)	USA	Models with factor structures for errors and regressors are considered. Using the general results, conditions are determined under which consistency of the LS estimators holds and fails in models with factor structures. The results are extended to cover heterogeneous and functional factor structures in which common factors have different impacts on different population units.

A critical look at the literature indicates that even though majority of the authors have demonstrated the inseparable link between fiscal discipline and job creation, there is no clear conclusion on how the lack of fiscal discipline could bring about job creation. In the first place, the findings generally point to the conclusion that without effective implementation of the appropriate fiscal framework to check excessive budget deficit, government spending and reduced borrowings. This requires the use of a more integrated approach to address the fiscal discipline and creation nexus. Secondly, the study conducted by Ardagna (2014) was very influential and sought to look at the relationship between fiscal discipline, public debt and economic growth. However, Amo-Yartey (2013) argued that fiscal rules do not operate in isolation and require supporting institutions and reforms to deliver the outcome.

In this regard, implementing policy reforms aimed at improving transparency and accountability in the revenue mobilization and expenditure control will go a long way to help maintain fiscal discipline and create jobs in the long-run. In terms of the methodologies used for the studies, General to specific

modeling (GETS) appears to be one of the most popular approaches in econometrics because of its ability to eliminate endogeneity or move general unrestricted model into a parsimonious and interpretable 'specific' model that offers true results. In other words, GETS methodology eliminates variables that are not statistically significant to reduce its complexity, verify validity of data reductions by diagnostic tests, to ensure that the final model is congruent.

### **2.36 Ghana's Encounter with the IMF: Fiscal Discipline and Job Creation**

Ghana's encounter with the International Monetary Fund and IMF began in 1966. Various governments have made attempts to engage the World Bank and the IMF. In 2009, Ghana borrowed \$602 million from the IMF and the World Bank to stabilize the economy. Ghana's relationship with the Fund was one of the main reasons why the government of Ghana has not been able to create jobs due to the conditionalities. As a result of restrictive spending on government and the freeze on recruitment in the public sector, there has been little or no focus on job creation. The IMF programmes are targeted at fiscal discipline, but does not usefully translate into job creation.

Ghana's economy deteriorated in 1965 and went to the IMF for a loan. The IMF imposed the following conditionalities on Ghana. In the first place, the government was advised to be fiscally disciplined, reduce its spending, especially the capital budget and the extent of the fiscal deficit and borrowings. This resulted in large scale retrenchment in public sector, as amounting to 10% of total labour force. Other measures included devaluation of the cedi by 30% against the US Dollars as well as restrictions on external borrowings.

The successful implementation of the IMF policy plunged Ghana into trade surplus and a fiscal deficit reduced. This brought inflation down from 13.44% in 1966 to 6.5% in 1969. For instance, between 1965 and 1970, GDP grew by 5.3%. However, formal sector employment for the same period

registered an insignificant increase from 396,000 jobs to 398,000, representing a difference of 2,000 over the period.

However, under the National Redemption Council (NRC) government headed by General Kutu Acheampong introduced and implemented a home grown policy popularly referred to as *Operation Feed Yourself* and this resulted in an increase in formal employment from 398,000 in 1970 to 455,000. This represented 2.8% of real jobs that were created over the period.

Ghana's return to the IMF in 1983 marked the beginning of its longest encounter with the Fund. The IMF prescribed stabilization programme, the Economic Recovery Programme (ERP) from 1983-1986, followed by a Structural Adjustment Programme (SAP) was meant to address the structural imbalances in order to stimulate growth. Unfortunately, some of the IMF policy prescriptions that were largely implemented in Ghana included trade liberalization, public sector retrenchment, removal of subsidies on food, petrol and such social services. Unfortunately, in spite of all the measures that were implemented to restore fiscal discipline, jobs reduced from 337,000 to 215,000 between 1980 and 1989. The undesirable consequences of the IMF reforms was that the focus of job creation was shifted from the formal sector to the informal sector.

The IMF and the government recognized that the implementation of the economic reforms have contributed to job reduction. Programme of Action to mitigate the social cost of adjustment was introduced in 1987 to reduce poverty and to create more jobs for the people of Ghana.

As a result of the global financial crises that occurred in 2008, Ghana's economy crumbled, and the budget deficit increased to 14.5 percent of GDP. Inflation increased to 20.34% by February 2009. The IMF approved US\$602 million loan to Ghana in 2009 to support its stabilization programme to correct the anomalies in the economy. There were benchmarks which were quantitative and structural targets

that should be met as part of the conditionalities under the programme. These are summarized in Tables 7 and 8

**Table 2.7 Ghana: Quantitative Programme Targets 1 (December 2008 – December 2009)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Quantitative Performance Criteria</b>			
Overall fiscal deficit of the government(ceiling; in millions of cedis)	2,558	2034	742
Net international reserves of the Bank of Ghana	1301	-404	-37
<b>Continuous Performance Criteria</b>			
Contracting or guaranteeing of new external non-concessional external debt	300	300	300
<b>Inflation consultation</b>			
Twelve month consumer price inflation	19.5	15.2	12.7
<b>Indicative Target</b>			
Net domestic financing of the government	479	1033	92

**Source: IMF Database 2010**

The principal aim of the IMF programme was to achieve marked performance in fiscal discipline, revenue collection and debt management.

**Table 2.8: Ghana Structural Benchmarks under PRGF Arrangement, 2009-2010**

<b>MEASURES</b>	<b>TIMING</b>	<b>MACROECONOMIC RATIONAL (MEFP)</b>
<b>PRIOR ACTION</b> Adoption of budget to limit the fiscal deficit to 9.4 percent of GDP in 2009	Implemented	Reduce fiscal deficit
Adoption of measures to yield at least 1.0 percent of GDP to offset projected expenditure over	Implemented	Check government expenditure
Selective public sector hiring freeze, with exemption mainly limited to health and education trainees	Implemented	Streamline employment in the public sector
Reinstatement of automatic biweekly price adjustment for petroleum products	Implemented	Reduce external shocks
<b>STRUCTURAL BENCHMARKS</b> Tax policy and revenue administration <ul style="list-style-type: none"> <li>• Complete comprehensive review of zero- rated VAT items and the nature and scope of tax exemptions and discretionary waivers</li> </ul>	Implemented	Boost revenue of the government
Cabinet approval of a modernization strategy for revenue administration	End – September 2009	
<b>PUBLIC EXPENDITURE</b>	End – December 2009	

<b>MANAGEMENT</b>		
Review of the effectiveness of the existing budget information management systems	End – December 2009	Strengthen monitoring and control of budget execution
<b>PUBLIC SECTOR REFORM AND PAYROLL MANAGEMENT</b>  Steps to strengthen oversight and control of public service recruitment and staffing	End – September 2009	To strengthen oversight and control of the high and growing public payroll
Establish institutional responsibility for the reconstructing, commercializing, or liquidation of subverted agencies	End – December, 2009	To promote fiscal savings by rationalizing subverted agency numbers
<b>MONETARY POLICY</b>  Adoption and launch of program to strengthen communication of the framework for inflation targeting and disinflation over program period	End – December, 2009	To support the disinflation program

### **2.37 Ghana's return to the IMF for a Bailed out-2015-2019**

In 2015, Ghana secured US\$940 million from the IMF to support the local economy by stabilizing its cedi and restricting the extent of fiscal deficit. There were three distinct objectives of the programme namely to reduce government spending, boost tax revenue collection, and to reinforce the efficacy of Central Bank monetary policy role. The programme called for a robust front-loaded fiscal adjustment; structural transformation to reduce corruption, restore fiscal discipline, build external reserves to

withstand international shocks emanating from international price volatility in the short run. The programme sought to reduce inflation to achieve economic growth in the medium to long-term (IMF, 2015).

### **2.38 Implications of IMF loans on job creation in Ghana**

Generally, the implementation of the IMF and World Bank programmes have had positive effect on macro-economic stability. However, the consensus is that job creation under IMF programmes has been generally minimal. There is the withdrawal of subsidies, freeze on public sector employment. This resulted in poverty and gender inequality.

The impact of IMF loan on employment and therefore household income were greeted with conditionalities. Ghana's share of labour as a percentage of GDP trended downward Akabzaa, and Ayamdoo (2009) stated that Ghana became extremely impoverished under the implementation of IMF programmes. Given the consequences of IMF conditionalities on employment (Aryeetey and Kanbur, 2008) not a lot was achieved and that has become the main stumbling block against Ghana's economic development.

### **2.39 Job Creation by Industries**

Making inference from case studies which underpin the IFC Jobs Study (2013) as well as the International Growth Centre's Enterprise Mapping Project report, the various industry contributions to employment in developing countries are assessed. In estimating job creation multipliers, this study assesses the number of indirect jobs created per direct job which is different from the input-output tables and interviewing of key suppliers/distributors used by the IFC study. To rightly depict the inter and intra sectorial linkages on job creation and the overall effect on the economy, it is highly imperative to make accurate distinction between direct, indirect and induced jobs. The clear distinction could be of immense support to the general employment of output multiplier. The use of Enterprise

Mapping surveys in the countries discussed in the study which included Ghana, Ethiopia, Tanzania and Zambia showed important trends in agro-business' contribution to formal sector employment.

#### **2.40 Job Creation by Economic Sectors**

According to the ILO (2019) between the periods 1991 and 2003, total employment increased between 0.3 and 0.38 percentage points for each percentage increase in GDP growth. It can be deduced that between 1991 and 2003 gains in productivity accounted for about two-thirds of the economic growth while labour supply contributed the remaining one-third. It is worth noting that in the period 1995 to 1999 which witnessed the strongest global economic growth, employment growth was also the strongest during the three periods.

##### **1. Agriculture**

Though Agricultural sector remains the biggest employer (OECD, 2013), its impact in growth is expected to differ from the manufacturing and services sector in the following ways:

1. The presence of surplus labour in the Agricultural sector (Lewis dual-economy model).
2. The flow of Labour from agriculture to other sectors as a result of increase in output, productivity and wages. The reverse is only assured when productivity and wages exceed that of manufacturing and services.
3. Underemployment is rather expected to reduce the creation of new jobs when agricultural output increases, all things being equal.
4. Growth in related industries such as agri-business is likely to spur growth in Job creation in agriculture.

Asian Development Bank (2013) and African Development Bank (2013) corroborated the above assumptions. Asian Development Bank (2013) asserted that labour flows from agriculture to other sectors of the economy as the economy grows and develops. It postulates that, the productivity of

agricultural labour starts to increase in the initial phase. The second phase is when there is surplus in agricultural output which fuels the growth of industry and services by mobilizing labour, savings, and tax revenues from the agriculture sector. Industry and services become increasingly significant in the integration phase. Improved infrastructure and the development of markets are irreplaceable functions in the agricultural development equation. The successful integration phase renders an economy industrialized. At this phase there is almost no conspicuous difference between agriculture's labour productivity and that of industry and services because these sectors would have mopped up the surplus labour in agriculture.

## **2. Manufacturing sector**

When considering job creation in the manufacturing sector, one critical element that cannot be overlooked is output. However, on a region by region basis, there is variation in the employment elasticity with respect to output growth. According to Mazumdar (2003), distribution of growth outcomes between employment growth and wage growth affects employment elasticity in the manufacturing sector. Mazumdar further argues that the extent of this trade-off is affected by these two factors (i) the elasticity of the wage bill with respect to output, which determines the trends in the share of labour, and (ii) the price effect, which is the result of inflation rate as well as the movements of producer prices vis-a-vis consumer prices. Using the UNIDO database, Mazumdar categorized countries into four regions (East Asia, Sub-Saharan Africa, Latin America and OECD). Mazumdar contended that significant disparities exist in employment elasticity for the four regions considered when he categorized countries into four regions (East Asia, Sub-Saharan Africa, Latin America and OECD) based on UNIDO database. He established that in both OECD and Latin America, increase in manufacturing output did not result in increased employment whereas for the Sub-Saharan Africa, employment increased significantly as output in the manufacturing sector increased, as evidenced in the period 1971-1980. The trade-off i.e. employment against wage increase according to Mazumdar is

the result of 'revealed preference'. Irrespective of this difference in the outcome, price-effect had adverse effect on the regions.

Padalino and Vivarelli (1997) indicated the employment levels in the general economy and manufacturing output in both the Fordist era (1960-1973) and post Fordist era (1973-1994) reveals that employment did not increase with increase in manufacturing and long term growth of output.

They stated that with exception of Japan, all the G7 member countries showed negative coefficient of elasticity during the post Fordist era. Employment rather increased with growth in GDP compared with the Fordist era though GDP growth rate was slower. Padalino and Vivarelli contend that the services sector being a leader in employment, contributed the most to these developments. They further posit that the manufacturing sector cannot therefore be relied upon to drive employment growth in the economy as a whole though in the short run, both GDP and industrial output had positive influence on employment.

### **3. Services Sector**

There are a number of studies to show that the services sector has higher employment intensity. Mourre (2004) in assessing employment at the Euro area indicates market-related services like trade, craftsmanship, business and financial services had quite high employment growth at the start of the economic expansion of late 1990s than at the start of economic boom in the later part of the 1980s. Two attributes are associated with growth of the services sector. They are strong economic growth or high job intensity or both. Growth in value-addition increases employment in market-related services. Both ADB (2013) and OECD (2013) affirm that the services sector has had a favourable impact on job creation in the developing countries. Both publications conclude that in this part of the world, the services sector remains the key driver of job creation. This position is affirmed by the IFC Jobs Study (2013). According to the IFC Jobs Study (2013), between the period 2000 and 2011, job creation

increased by 4% estimated annually with North Africa being the exception where employment in the services sector did not change.

#### **2.41 Macro Perspective of Industrial Production: The case of Agri-business in Ghana**

A study by Sutton and Kenney 2012 showed that Ghana's economy experienced accelerated growth from 2000 to 2009. They assert that the discovery of oil will help raise the trend further provided the needed industrial capabilities are developed as an important synergy. Ghana's industrial sector revolves around agribusiness, manufacturing and construction. The agricultural sector is the largest employer providing about 60% of the country's total employment. They further argue that notwithstanding, the sector has contributed only about 35% of the total GDP output in the preceding five-year period. The production capacity of the agricultural sector needs to be developed if full gains are anticipated as it produces woefully 30% of the raw materials needed by its agro-based industries. It is worthy of note that although Ghana's cocoa bean production is the second largest in the world and contributes about 3.4% to GDP and 28% of exports, it cannot boast of many large processing facilities. The cocoa thus provides employment to about 2million people. The increasing demand for non-alcoholic beverages is also impacting on job creation in that sector at a fast pace. The construction industry with its associated job creation which is dominated mainly by government sponsored projects has seen a slowed pace with change of government but expected to pick up close to the electioneering year. 25% of Ghana's industrial workforce is within the chemical industry.

#### **2.42 Impact of Institutions and Policies on Job Creation**

##### **1. Trade Policy**

There is extensive research on the effect that trade liberalization has had on employment. There is diverse thought on the subject matter. For instance, Papageorgiou *et. al.* (1990) enumerated the positive

impacts trade liberalization has made on employment where as others such as McMillan and Rodrick (2011) expressed doubt on the aggregate impact of trade liberalization on job creation. A study on the growth of Madagascar's export sector casts doubt on the overall impact on job creation. Nicita (2006) revealed that: (1) though there are potential employment opportunities associated with export growth, a large segment of the poor lacks the required skills to tap into them. Rural areas do not receive their fair share of the job creation.

## **2. Labour Market Institutions and Policies**

Labour market policies play a useful role in employment creation. Promulgation of labour policies that facilitate efficient bargaining, alter incentives, increase information, communication and trust are important determinants of employment outcomes, according to (Freeman, 2007). There is, however, a divergent view as to the institutions responsible for job creation. The numerous studies that favour labour market policies as the optimum driver of employment argue that flexibilities in the labour market help facilitate job creation (Blanchard *et. al*, 1999). Freeman (2007) stated that market-oriented labour policies that reduce/increase distortions in setting wages and negotiating contracts impact on job creation. Botero *et. al*. (2004) in their study of about 85 countries further affirmed that stringent labour regulations tend to impede employment growth. Freeman, 2008 however acknowledged that there are contentions against the methodologies that led to the conclusions that labour market rigidities impact on job creation as there is little evidence to buttress that stance. In the Fox and Oviedo (2008) examination of the impact of employment protection legislations (EPL) in Sub-Saharan Africa, they did not reveal any material linkage between labour market policy and job creation. Kapsos (2005) supports this position as his study showed no evidence of labour policy rigidity impeding employment intensity but rather finds high taxes on labour having negative impact on employment rate. Notwithstanding, most studies admonish a balance between labour market flexibility and employment

security but the right balance is yet to be determined. Cazes and Verick (2010) points to Europe's *flexibility* for balancing labour market efficiency and employment security.

### **3. Fiscal and Monetary Policy Interaction**

Employment rates are certainly not independent of Fiscal and Monetary policies. As an example, employment increases with increase in aggregate demand which in itself is a function of counter-cyclical policy. Zepeda (2008) buttresses the effect of Fiscal and Monetary policy on job creation as he identified slow growth and unfavorable exchange rates have negative tendencies on job creation in Mexico. On the contrary, macro-economic policies conducive for growth such as sustained competitive exchange rates and counter-cyclical fiscal policies favour job creation. Measures such as undervaluation serve as subsidy on industries and spur their expansion translating into increased employment. This is supported by Rodrik (2008) and IMF (2012b).

### **4. Investment Policy**

As far as employment creation is concerned, the sector that receives investment determines the impact rather than the quality of investment that is made. The sector that increases economic activity by far promotes the creation of jobs. For instance, export led enterprises that received foreign direct investment (FDI) created massive jobs in China According to (Fu and Balasubramanyam, 2005). They posited that if China's Township and Village Enterprise (TVE) with employees of about 125.4 million in the year 1998 were to increase its export by just 1%, they would have created about 213,000 jobs. They further revealed that between 1998 to 2003 period, TVEs created about 3million jobs yearly when it export grew by 15.5% each year. Employment opportunities are impacted the most when FDIs enhance the productive capacities of the sectors they flow to. However, Sanjay Lall (Lall, 1995) indicated private sector development, favourable trade and industrial policies as well as adequate supply side measures.

### **6. Industrial Policy and Job Creation**

The key elements of industrial policy more specifically affect job creation. Various economic enclaves have positive effect on job creation in that such clusters have been properly demarcated for such purposes. In China, for example, industrial enclaves contributed a lot to the success story of China (Zeng, 2011). There were 3,000 industrial enclaves' that generated 68 million direct jobs and over \$500 billion of trade within trade zones (FIAS, 2008). In Asia, industrial policies and development of enclaves has contributed to job creation, the impact has not been felt in Ghana and Africa for that matter. Velde et. al. (2013) contended that even though the existence of industrial clusters has created limited jobs, the case of Ghana is different. From 1998 to 2010, jobs created moved from 4,000 to 27,798. Kingombe and Te Velde (2012) demonstrated that local policies and institutions have an impressive effect on job creation and contended that governments should use it as a tool for structural transformation (Velde *et. al*, 2013). As a result of globalization which is gradually changing almost all the time, there is the need to build capacity so that firms can fit into the wider development.

### **2.43 Job Creation Definition and Types of Jobs**

According to Peach, Julian and Ahmed (2011) the most commonly used definition for a job is found in two primary sources: Ghana Statistical Service and the International Labour Organization (ILO). According to the International Labour Organization, jobs are created by defining the programme, output and outcome of the intervention. It takes various forms such as employment, unemployment or underemployment; skilled, semiskilled and unskilled workers; temporary and permanent employment; as well as direct, indirect, and induced jobs.

### **2.44 Employment and Unemployment**

Globally, there are 215 million people who are unemployed (ILO, 2014a) and accounts for about 6% of the world's population. Ghana's unemployment figure exceeds that of the world record since its rate of unemployment is estimated at 10%. The international labour organization defines employment as the

involvement of a person in any economic activity that is within the working population for a pay or in kind or returned favour (ILO, 2012b). Any person who works at an hour a week can be said to be employed even if that person works in a family business without salary. The concept of employment and unemployment relate to the quantification of aspects of job creation and it can be an active job, non-active job, not paid and within the working age, since apart from the commonly used, statistics do not explain further about what constitute employment and unemployment. This implies that persons working might not be well paid, rich, or have improved quality of life. In other words, being employed does not mean that one is not living in poverty.

Employment and unemployment are frequently misconstrued. According to the International Labour Organization (ILO) unemployment include persons who are not actively working (15-65) or actively seeking work. This does not include the person who has been seeking for job for some time and has been discouraged or individuals who has given up the task of looking for employment as a result of non-existent of job (ILO, 2012b).

#### **2.45 Decent and Meaningful Jobs**

They are generally used by the International Labour Organization to distinguish between a person's right and the working environment. In other words, decent jobs are defined mainly by the International Labour Organization (according to the person's work environment and the rights and quality of the job). Meaningful job on the other hand relates to the extent to which the job can improve the individual and society as a whole. This study uses decent and meaningful jobs interchangeably to refer to jobs that contribute to an improvement in the standard of living of the people.

### **2.45.1 Temporary and Permanent**

A temporary or permanent job is measured using time or legal contract. In the Ghanaian context, a contract job lasts for only six months whilst a permanent job has no established end date, and may have supplementary welfares such as medical and retirement benefits (Steinberg et al. 2012).

### **2.45.2 Direct, Indirect and Induced Jobs**

Direct jobs comprise those jobs relating to project activities such as construction, development related activities. According to Steinberg Porro, & Goldberg (2012) direct job focuses on-site labour whereas indirect job refers to procurement of materials, providing legal and banking support services. Induced jobs are created by virtue of the direct and indirect jobs of spending (Rutovitz 2010).

### **2.45.3 Net Job Creation**

Net job creation denotes new jobs that have been created as a result of movement of employable people from one place to the other thereby creating skills deficits in other sectors. In other words, net job creation generates job prospects for the unemployed and this helps to reduce the level of unemployment in an economy (Llera et al. 2013).

### **2.45.4 Job Creation Measurement**

Job creation can be measured qualitatively or quantitatively. Quantitative measurement of job creation takes the form of percentages, job losses, job opportunities, salary, unemployment and employment. Qualitative measurement of job creation looks at the socio-economic dimension or impact such as analyzing the reasons for strikes, union's right, remuneration and retrenchment. According to Maslow (2013) human needs are may be varied and presented on a pyramid. Job creation measurement can be done at the personal level by looking at the job fulfillment, satisfaction, expectations, etc. which give the basis for undertaking a qualitative, quantitative or both.

There are many methodologies for quantifying, estimating and predicting jobs in an economy. These include ratios and various models that are used to understand the effects that fiscal discipline has on economic development and potential job creation (Steinberg et al. 2012; Dalton & Lewis 2011; Llera et al. 2013; Frondel et al. 2010; Simas & Pacca 2014). The most recent reports on global employment measurement include the IFC multipliers and Okun's formula.

### **2.246 Estimating Economy-Wide effects of Job Creation**

This IFC methodology is aimed at estimating the job creation effects in an economy. It focuses on jobs created in the supply and distribution chain of the company, jobs created due to increase in demand associated with higher labour income, and jobs created elsewhere in the economy as a result of firms' expansion. It examines direct or indirect jobs created using input output ratios obtained through interviews with key suppliers and distributors.

#### **1. Using the Number of jobs created per 1 million US Dollars invested**

Similar to the use of multipliers, total jobs created can be measured using the number of jobs created per 1 million USD invested.

#### **2. The Okun's Coefficient**

The basis for measuring employment-output relationship is the Okun's coefficient which investigates the statistical relationship between a country's unemployment rate and the growth rate of its economy. The formula indicates that there is an inverse relationship between a percentage GDP gap (i.e. a difference between potential and actual GDP) and unemployment rate above the natural rate of unemployment (Okun, 1962). As a rule of thumb, for every 1% decrease in cyclical unemployment there is an equivalent 2% growth in real GDP.

### **2.46 Key Issues in Measuring Job Creation**

With an estimated 215 million people unemployed worldwide, job creation is gaining an important role in economic literature. The problem with unemployment is that the youth are in the majority within the developing countries. It is expected that job creation should be increased by some 600 within the next 15 years to halt the global unemployment. There are significant challenges impeding the measurement of job creation and this makes it difficult to measure job creation and is sometimes susceptible to errors.

There are many diverse issues that will have to be taken into consideration when measuring job creation from developing countries. The most popular one is the ascription of job creation to a project's interventions. Secondly, there is the need to assess the various jobs that are created at any point in time. These include direct, indirect and induced jobs which necessitate the use of diverse measurement. Third, job features of job seekers should be assessed and the implications examined. Fourth, information from a particular intervention is assessed together with its design.

#### **2.47 Data Collection Methods for Measuring Job Creation**

The choice of methods to measure job creation is very important as it has effects on cost and human resource requirement. Two broad categories for measuring job creation are direct measurement, which involves the use of multipliers and estimating the number of jobs created through elasticity of income generated by a programme or specific intervention. Presented below is the table 2.9 which shows the various data collections for job creation.

#### **Table 2.9 Data Collection for Measuring Jobs**

Suggested Method	Description	Most Helpful For	When to Use	Potential Challenges	Difficulty of Application
<b>Direct Measurement</b>					
<b>A. Getting Employer Records</b>	Records compiled by employers.	Formal or informal operators that keep records  Measuring direct jobs.	When there is solid relationship between employer and employee  When data is accurate	Data storage is a problem  Where there is no trust, there is a problem.	Low: inexpensive and typically not time intensive.
<b>B. Surveying Employers</b>	Officers of a company administering questionnaires.	Small and big firms  Measuring direct or indirect jobs.	When business records do not exist, are not of high quality or are not adequately detailed.  When additional information about job quality is available.	Employment situation should be understood	Moderate: somewhat costly and time intensive. Difficulty depends on the type of firm that is targeted; firms that were not directly reached by programme will be more Challenging.
<b>C. Surveying Employees</b>	Beneficiaries participating in a survey	Employees that have stable and fixed places of	When information on employees is difficult to obtain through employers.	Obtaining a sample size robust enough to draw generalizable conclusions	Moderate when conducting

Suggested Method	Description	Most Helpful For	When to Use	Potential Challenges	Difficulty of Application
		Employment. Measuring direct and indirect jobs.	Measuring the features of quality of employment.  To appreciate the gender dimension of job creation  To assess the working conditions of employees	can be challenging. Getting employees whom you have not worked with before.  Estimating job dislocation is not easy	Periodic, non-representative validation of employer-provided information.  High with significant expertise, cost and time requirements to obtain robust employment figures.
<b>Estimating through Job Multipliers</b>					
<b>D. Developing Localized Multipliers</b>	Collating and gathering data to generate market multipliers) and then calculating the direct and indirect job Creation from it.	Evaluate the impact of job creation on market actors.  Evaluate direct and indirect jobs.	There is the existence of ratios for measuring the impact of job creation on many companies and businesses in the target market systems.	There is the need for expertise to develop the multipliers.  Underlying assumptions Can be unrealistic	Moderate - High: significant expertise typically required. Expense may high if data not already available.

Suggested Method	Description	Most Helpful For	When to Use	Potential Challenges	Difficulty of Application
<p><b>E. Employment Elasticity Estimates</b></p>	<p>Published employment elasticity figures are used to evaluate the impact of a project or programme.</p>	<p>Calculate job creation from the perspective of those that cannot be assessed using a survey.</p> <p>Measure jobs that are induced.</p>	<p>To evaluate jobs created in a country through an input</p> <p>To assess induced jobs that will be created by the economy.</p> <p>Using credible employment multipliers.</p> <p>This is used when there is no direct measurement of job creation, when the project is large, or complex.</p>	<p>Verification is impossible.</p> <p>The use of linear models might have improbable assumptions</p> <p>It is difficult to establish and verify the multipliers when the context of then programme is difficult.</p>	<p>Moderate: if published multipliers exist and seem reliable, this method can require much less staff time. Expertise required in establishing and defending the methodology for calculation.</p>

## **2.48 Structural Transformation and Job Creation**

There is a school of thought that structural transformation can lead to job creation. This argument is built around the conviction that structural changes will boost a nation's agricultural production and this will enhance GDP. Even though it is an acknowledged fact that agriculture is the mainstay of most African economies in Africa and Ghana for that matter, it does not employ people with good qualifications due to the fact that agriculture is not mechanized. It is expected that as the contribution to agriculture transformation reduces, its contribution to GDP will decline (Leipzig & Yusuf, 2012). This implies that those workers in agriculture will have to be absorbed in other sectors through a process of structural change. It is important to note that the necessity of structural change should not lead to a neglect of African agriculture but should bring about substantial growth and contribute to the economy planning of African countries (Dihn et al., 2012).

According to McKinsey (2012), some sectors have the capacity to absorb redundant workers in agriculture. These include commercial farming, commerce, services, tourism, transport, logistics and distribution; mining; construction; manufacturing and the public sector. These sectors have diverse prospects and opportunities to create jobs. It has been observed that manufacturing and commerce create more quality and productive jobs whilst agriculture provides less quality jobs. With the exception of the public sector most table jobs are created within the mining, construction, manufacturing, banking sector as well as the telecommunication sector (McKinsey, 2012). The manufacturing sector in particular provides two main sources of jobs for the evolving SME sector as well as the larger corporates (Tybout, 2000). The implication is that any economy whose manufacturing sector is buoyant has the tendency to create more jobs. In the research work conducted by (Dihn et al., 2012), only a handful of job opportunities are created in the

informal sector because the sector lacks access to credit and is usually unbanked. Generally speaking, manufacturing sector has not achieved that much. In the case of Tanzania, Szirmai and Lapperre (2001) underscored the need for a more dynamic economic policy reform to make the manufacturing sector viable. Increasingly, more and more people are employed in agriculture than manufacturing because it has informal features, underemployment and low quality jobs (McMillan and Rodrik, 2011; McKinsey, 2012; Dihn et al., 2012; Page, 2013). McMillan and Rodrik (2011) show that, despite a regional trend of growth-reducing structural change, African countries have high heterogeneity, with Zambia and Nigeria experiencing structural change towards agriculture and Ethiopia, Ghana and Malawi, instead, experiencing growth-enhancing structural change (towards manufacturing).

Rodrik (2006) argued as a result of the workers' incessant quest and agitation for higher wages and salaries, the labour market has become rigid and this has contributed to unemployment. Structural transformation should result in the shift away from the mining sector to export-oriented manufacturing which has high potential to create more jobs within the shortest possible time. According to Hausmann (2007), certain challenges affect the smooth running of the manufacturing sector. These include exchange rate, trade policy, high input costs, and labour market constraints, obstacles to meaningful structural transformation and weak forward and backward integrations to the economy.

Through diversification of exports and production, it is possible to vary export capacity and volume and this will lead to job creation. World Development report (2013) cited Norway and Papua New Guinea as cases of successful management of natural resources revenues in Africa. As far as structural transformation is concerned, there is paucity of literature but the general view

is that construction sector does not contribute a lot towards structural change, although in terms of the quantity of jobs created in an economy.

#### **2.49 Government's Transformational Policy for Job Creation in Ghana**

Government policy could have both positive and negative consequences on job creation. A tax reduction can have positive effect on the growth of industry whilst an increase in tax could have the opposite effect. A good example is the One District One Factory policy. According to Guajardo, Leigh, and Pescatori (2014), government's policy could have impact on job creation especially when the cost of doing business is high and this tends to affect the growth of businesses in the country.

Unemployment is one of the most pressing problems bedeviling Ghana now. The inability of Ghana's economy to develop at significant pace to create jobs and improve wages and livelihoods has become a noteworthy concern. In reality, the joblessness issue has achieved an emergency point, given that the rate reliably expanded over the most recent three decades, and remained unpleasantly at 11.9% toward the close of 2015. The youth mainly between ages 15 and 34 years form the majority of the country's unemployed but capable hands. Pathetically, only a meagre 10% of the country's graduates are able to secure meaningful jobs after completion of their mandatory national service while a huge proportion of the remaining 90% may take up to 10 years to secure employment. The private sector is the largest employer with about 90% classified into the informal sector with its associated low productivity and very low incomes. Broadly speaking, Ghana's economic growth slackened for the most part of the last two decades, with severe repercussions on job creation. The relatively strong economy the country witnessed between 2010-2012 and 2017 was largely due to the onboarding of the oil and gas sector which unfortunately have a limited job creation sway. The agriculture and manufacturing

sectors which could boast of better employment generation potential also saw a slow progress up to 2016 and only picked up in 2017 with agriculture trailing the manufacturing industry.

Though Ghana's economy has a huge proportion of its workforce in the informal sector, the sector remains deficit in effective regulations or clear policies to supervise the sector to make it efficient in order to create jobs. This problem is compounded by the fact that there is very little official data to assess the sector's true value generation. Attempts at solving the unemployment problems through various policies and programs have tended to yield very little results as there is skill gap that has not yet been addressed.

The government in its attempt to arrest the problem of unemployment, prioritizing agriculture as the mainstay of the economy, initiated a plethora of flagship programs for implementation. These include the "Planting for Food and Jobs (PFJ)", a GH¢400 million Fund to de-risk agriculture and the agribusiness sector; a "One Village One Dam" initiative; and the "Agriculture Management System (AMS)" initiative, an end-to-end solution and a Virtual Farmer Program (VFP), aimed at boosting the entire agriculture supply chain. It is highly expected that these interventions will create a myriad of job opportunities in the economy. For instance, the PFJ program is expected to create over 4.6 million jobs in four years and the VFP, some 33,000 jobs for the youth. The industrial sector is also expected to see a major rejuvenation with the establishment of a minimum of one feasible factory in each of the 216 districts in the country under the "One District One Factory" (1D1F). Hopefully, this should contribute adequately towards positioning the industry sector as a leader over the services sector.

The government is implementing a number of structural reforms to contribute to job creation. Some of the interventions include addressing production capacity issues, development of strategic anchor industries such as Integrated Diamond and Aluminum Industry, Iron and Steel

Industry and the automotive policies to create vehicle assembly plants and the establishment of industrial parks. Other transformational programmes include refocusing Ghana's education on technical, vocational, science and technology to build the critical skills to transform the Ghanaian economy.

To drive the industrialization agenda further, the government has initiated the establishment of one industrial park in each of the 10 regions of the country; one warehouse in each of the 216 districts (One District One Warehouse), "National Industrial Revitalization Programme" and the "National Entrepreneurship and Innovation Programme". Graduate unemployment has been reduced by some 100,000 with the launch of the Nation's Builders Corp (NABCO) in 2018. NABCO appears to be the most direct government intervention aimed at addressing graduate unemployment in the country and will therefore need to be prudently managed to be self-sustaining in order not to bring untold hardships on the national budget. However, the object of NABCO's interest appears synonymous with that of the state established Youth Employment Agency (YEA) and so places a burden on government to ensure a clear distinctiveness between the two institutions so as to avoid uneconomical duplication of systems.

Suffice to note that direct government intervention is not the ultimate approach in tackling the country's employment crisis amongst its graduates. It is highly imperative to restructure the education system to emphasize high-quality science, technology, engineering and mathematics (STEM) and make same accessible to all students in the country. This should be done in tandem with reforming higher education courses to include vocational and industrial attachments to address the skills gap in respect of the job market.

Government policies targeting the problem of unemployment are betrothed to a number of survival-threatening challenges. For instance, the government's flagship project is faced with the problem of land accessibility. The complex land administration and governance system continue to pose major constraint to large agriculture investment in Ghana. The mining sector is not exempted from the challenges of land tenure system as their expansion activities have in some cases been a direct challenge to the survival of small-scale agriculture which employs a large portion of the country's work force. Accommodating these two significant development drivers has turned into a basic administration issue. Another significant bother is access to modern agricultural implements as well as technology for farmers and poor soil condition. Increase in agriculture gains has therefore been at the expense of increasing cultivated land rather than productivity gains.

The aging farmer population devoid of commensurate entry of the sector by young people poses significant threat to the country's farming sector. There is also huge expenditure in transmitting information on new approaches, technologies, opportunities and policies to the mostly illiterate farmers. Chiefly amongst the challenges facing the agribusiness sector in the country is financing especially for small, medium and micro-businesses. If maximum gains are to be derived from agribusiness through value addition to existing production, the agribusiness environment must be relooked at critically.

A noteworthy impediment to the 1D1F programme would be funding. Promoters' equity, private financial institutions, local private equity companies, and development partners are expected to finance the 1D1F programme. The proposed sources of funding could be a limiting factor to the successful implementation of the initiative taking into account the many entrepreneurs with viable projects who do not have funds to finance their ventures. The various financial

intermediaries are also disinclined to fund such businesses due mainly to the fact that most lack track record making them significantly risky. Government may therefore have to consider entering into public-private partnerships (PPP) with potential private entrepreneurs to finance the ventures. In this unique situation, the Venture Capital Trust Fund, established to make available an alternative source of funding in the form of equity financing, may need to be restructured and resourced and tasked with the mandate of supporting the 1D1F program as a priority. Though Ghana has fairly improved upon access to infrastructure services, the country is still bedeviled with low quality of service besides the need for ever more infrastructure development.

This phenomenon continues to saddle the country with inefficiencies and huge investment costs with its associated toll on economic growth and job creation. Urgency must be attached to step up infrastructure finance required in the context of sincere commitment to address efficiency issues. In doing this, particular attention must be given to the key areas of ICT, irrigation, power, transport, water, and sanitation. It is important to state that, the attention should not be blindly directed at only raising investment capital in the efforts to bridging the country's infrastructure financing gap but most importantly maintenance must also be prioritized.

For sustained long-term economic stability, the government need not add unnecessarily to the country's already distressed debt status in its quest to fund programmes and initiatives targeted at economic growth and job creation. It is paramount for the government to limit the amount of debt it incurs in order not erode gains so far made in the fiscal and macroeconomic environments. It is therefore exceedingly critical that any decision to invest borrowed funds be founded on sound economic returns and not political or wasteful populace considerations. A well thought through National Development Plan is required to transform the Ghanaian economy

from agricultural modernization to industrialization. This would deliver the expected job opportunities to the vast unemployed youth in the country.

### **2.50 The Role of Foreign Direct Investment on Job Creation**

Foreign direct investment has positive effect on job creation as it promotes entrepreneurship. A huge chunk of jobs is found in the risky informal sector in most parts of Africa. It is therefore of great concern whether entrepreneurship (and entrepreneurship policies) can create the means to make investment in this sector less risky. A number of current studies have shown that there is little vibrant entrepreneurship in the informal segment of most economies. This assertion is given credence to by Rooks et al. (2012), who surveyed of 800 entrepreneurs in Uganda which revealed that only about 25 of the number were dynamic entrepreneurs in a Schumpeterian sense. The majority were mere survival (subsistence) entrepreneurs. This to a large extent gives basis to Lina Sonnet's argument that in light of poverty reduction and social inclusion, policy should focus on the select number of growth oriented micro-entrepreneurs and not the mass of the poor survival level entrepreneurs if the desired objective is to be achieved. Lina Sonne further claims that it is these growth oriented entrepreneurs (also known as Gazelle firms) that can be relied upon for the needed job creation. Foreign direct investment (FDI) is now given the right hand of fellowship by countries in Africa who hitherto had reservations with FDI.

The post eighties era has seen countries such as Tanzania and Mozambique who were hostile to FDI opening up to foreign direct investments. Portelli, 2006, notes for instance that Tanzania, a former socialist nation is currently one of the principal recipients of FDI in East Africa in both mining and manufacturing sectors and Mozambique is not an exception. All in all, the discussion has moved from whether FDI is alluring to how it could be very well pulled in and under what conditions its commitments to the beneficiary economy and job creation are positive. FDI will

make positive impact on the productive employment arena in most economies as they target establishing production facilities. Chinese investment as an FDI is garnering a leading role in the development of Africa's economy.

In Ghana, the role of Foreign Direct Investment cannot be overemphasized. Foreign direct investments in Ghana can be assessed from three main phases. The first phase which took place from 1983-88 experienced low inflows recording \$4 million per annum. The second phase saw a growth in foreign direct investment of \$22 million in 1992. The third period covered the period 1992 to 2016 recorded significant growth in foreign direct investments of \$3.6 billion in 2014 (Tsikata et al. 2000 and UNCTAD, 2015). This implies that though a well-coordinated economic policy, Ghana would be able to attract increased foreign direct investments to finance its Ghana Beyond Aid Agenda.

### **2.51 The Relationship Between Tax Incentives and Job Creation**

There are varied outcomes on the study of the relationship between tax cut and job creation. As indicated by (Gabe and Kraybill, 2002), Luger and Bae (2005) and Billings (2008) there is some degree of uncertainty between tax incentives and job creation. The contextual analysis of Colorado enterprise zone reveals that tax cut as an incentive does not necessarily translate into job creation within two years. The study showed that instead of increasing job opportunities, the firms that received tax cut as an incentive reduced jobs by 10.5% whereas firms that did not receive any incentives rather created jobs by 6.6%. Billings (2008) therefore concluded that there is a negative correlation between taxes cut and job creation.

But this assertion is rather rebuffed on the premise that the study was limited in scope as it considered only Colorado and not the whole of the industries in USA. For instance, Luger & Bae

(2005) study of North Carolina contradicts Billings' conclusion as there was a 48% increase in new jobs created as a result of tax cut in four categories. The different study outcomes deepen the argument of effectiveness of tax incentives on job creation. Several researchers argue that more jobs are likely to be created in distressed companies when given tax cut as an incentive. It is further put up that where tax cut even results in new job creation, the effect might not be the same for different industries.

### **2.52 Import-Substituting Industrialization and Job Creation**

According to Shuman (2006) the concept of local ownership and import substituting is opposite in orientation to the neoliberalism approach which emphasizes free trade and liberalization of an economy. Instead, it focuses on the long term growth of local businesses through protectionist policies by government. The idea is that if local companies and enterprises grow, they will be retained in the economy and that will have a multiplier effect in the economy.

Thus, the import substitution industrialization enables developing countries to reduce their reliance on the advanced countries. To overcome competition as well as have local companies that will be able to leverage on their local capabilities to export on the global scale, they need to be strengthened whilst the government should offer subsidies, reduce import and tariffs to boost the production capacity of a country.

As one of the structural economic development concept, import substitution industrialization represents a set of development policies and programmes built around the Prebisch–Singer proposition on the infant industry argument. By placing high tariffs on imports as well as implementing a range of protectionist policies by the government, countries will substitute more expensive imported products with home produced products. By and large, developing countries

will catch up with the advanced countries; accumulate domestic and appropriate technology to sustain their own operations. Goldar (2013) argued that import substitution industrialization policy has the tendency to increase Gross Domestic Product (GDP) and contribute to total factor productivity.

The principal concept underlying import substitution industrialization is therefore built around enhanced local production of goods and services. It should be noted, as well, that import substitution does not imply *import elimination* because the developing country will still need some raw materials from the advanced countries for its production.

### **2.53. Export Oriented Industrialization and Job Creation**

The concept of export oriented industrialization can be attributed to the failure of the import substitution industrialization. The focus of the export-oriented industrialization is on developing strategies to export more to generate foreign exchange. The use of this policy is also justified by the neoclassical economists on the grounds of public sector efficiency and economic growth. Balassa (1971) contended that the export oriented policies provide equal incentives to sales in domestic as well as foreign markets and that has the potential to lead to resource allocation by offering comparative advantage and allowing for better capacity utilization, which will eventually lead to economies of scale and contribute to job creation.

### **2.54 The Role of Local Content (Home Grown Policy) in facilitating Job Creation in Ghana**

#### **2.54.1 Ghana Beyond Aid Programme**

Ghana has undergone important economic reforms such as the Structural Economic Adjustment Programme from 1983 to 1992 which brought about increased privatization in the Ghanaian economy and Financial Sector Adjustment Programme (FINSAP) which also sought to liberalize

the banking sector (Gyimah-Boadi and Jeffries, 2000). The adoption of these economic and banking reforms in Ghana, however, was riddled with challenges and did not help the country to achieve sustainable economic growth and development. According to Jebuni (1995), Gross Domestic Product of Ghana, grew by an average of 5.5% during the implementation of the Structural Adjustment Programme. The IMF and the World Bank policies contained conditionalities and prescriptions that constrained the growth of the Ghanaian economy. As a result, successive governments in Ghana have advocated for economic independence that is internally focused and domestically-driven and seeks to de-couple Ghana's economic development from the World Bank and the IMF policy prescriptions (Hutchful, 2002). Despite the implementation of all the reforms, economic growth has been insignificant and is characterized by low GDP and high unemployment rates.

Again, in 1995, Ghana developed its vision 2020 document to transform the Ghanaian economy through domestic savings, investments and job creation but did not meet most of its targets. In line with Ghana's development agenda to reduce poverty, the Ghana Poverty Reduction Strategy I and II were introduced to address some of the economic challenges facing Ghana in order to meet the Millennium Development Goals (Government of Ghana, 2003). In 2014, Ghana's Shared Growth and Development Agenda was developed and basically focuses on ensuring and sustaining macroeconomic stability; enhanced competitiveness of Ghana's private sector; accelerated agricultural modernization and natural resource management, oil and gas development, infrastructure and human settlements development, human development, employment and productivity, transparent and accountable governance (Killick, 2010).

In 2015, the National Development Commission developed Ghana's 40-year development plan (2018-2057). The plan focuses on inclusive growth and resilient economy, equitable distribution

of resources, improved health care delivery, poverty and inequality, social protection and employment. A critical component has to do with checking population growth (Constitutional Review Committee, 2011).

It is in furtherance of the policy objective of Ghana to ensure that growth is domestically induced and linked to industrialization to create wealth that the concept of Ghana Beyond Aid was born to spearhead the socio-economic transformation of Ghana (Bawumia, 2018).

Ghana Beyond Aid, simply put, is one of the innovative mechanisms for enabling Ghana to build a sustainable, prosperous and economically independent nation through the mobilization of domestic resources. The overriding philosophy in the implementation of Ghana Beyond Aid is built around the ability of Ghana to manage her resources in an open and fair manner. As part of the proposed economic reform, Ghana will boast of an entrepreneurial, private sector-led economy with an average GDP ratio to per capita income of \$3,500 by 2024. Investment levels of 40% of GDP and domestic savings rate of 20% of GDP are also projected. Other targets of Ghana Beyond Aid include a modernized agriculture, innovative healthcare system, and a private sector-led economy that provides jobs for its teeming youth.

A critical component of the strategy is to increase domestic resource mobilization from the existing 16% of GDP to 25% through the broadening of its tax rate, reduction in public debt and government spending and financial sector revitalization to play relevant roles in the socio-economic development of Ghana. Also, there is the need to address poor public procurement issues that tend to breed corruption and misappropriation of public funds.

Ghana will, as part of the Ghana Beyond Aid Agenda, ensure macroeconomic stability to attract foreign direct investments, an equivalent of \$100 billion for the next 5 years to fund most of the

infrastructural needs of the nation. This can be achieved through a well-coordinated strategy in the area of investments promotion, the establishment of more industrial parks and the granting of tax incentives to attract foreign direct investments to Ghana. It is important to mainstream Ghanaian businesses into global supply chains. In this regard, foreign direct investment could be one of the ways in which economic development can be achieved.

The empirical literature is replete with studies that discuss the relationship between foreign direct investments and economic growth. A number of factors affect foreign direct investments and economic growth and some of these include the intensity of research and development, tax reliefs, human resource management, cost of production, the role regulation and firm size. Others cite the strength of the currency, export orientation and political issues and the nature of government as key building blocks for attracting foreign capital to a country (Umoh & Chuku, 2012).

In a study conducted by Faras & Ghali (2009), the benefits and components of foreign direct investments and their impact on economic growth and development were discussed. They talked about the effect of foreign direct investments on a nation's competitiveness, human capital development and economic growth. According to Lipsey (2001), foreign direct investment has proven to be resilient during financial crises. For instance, during the Asian financial crises, investment was extraordinarily stable from 1997 to 1998. In sharp contrast, other forms of private capital flows such as portfolio equity and debt flows, and particularly short-term flows were subject to large reversals during the same period. The resilience of foreign direct investments during financial crises was also evident during the Mexican crisis of 1994-95 and the Latin American debt crisis of the 1980s.

Carkovic and Levine (2002) argued that for foreign direct investments to contribute to the economic development of any country, it is important for the recipient countries to develop a coherent framework to allow for growth of local enterprises alongside the multinational companies. Shaikh (2010) pointed out that there is a positive correlation between foreign direct investments and economic growth.

However, in Ghana, the problem is not to do with crises, but has to do with the implementation of a focused strategy to reduce over reliance on foreign aid. Whilst most authors cite environmental factors, taxation and human capital as the building blocks for attracting foreign investments to a country, Ghana's context is different. The empirical evidence suggests that foreign direct investment contributes tremendously to the growth of the domestic economy.

Andinuur (2013) demonstrated how foreign direct investments can contribute to economic growth in Ghana using time series data from 1980 to 2011. The findings indicated that foreign direct investment brings about positive economic growth. He emphasized the fact that governments must work hard to address the macroeconomic fundamentals such as inflation, exchange rate and interest rate. Similarly, Asafu-Adjaye (2005) pointed out in a study he conducted in Ghana from 1973 to 2003 and concluded that foreign direct investments positively influence economic growth.

In sum, the empirical literatures discuss both the factors that affect foreign direct investments and how economic growth is attained in developing countries. However, a key factor that influences foreign direct investments is the business and economic climate in which these companies operate. In the context of Ghana, the cost of doing business is high and that might negatively affect foreign direct investments. Government should create the enabling environment

for businesses and companies to flourish. This will help for governments to develop strategies for linking foreign direct investments to economic growth so that dependence on foreign loans will be minimized. In the specific context of Ghana, the relationship between foreign direct investments will be examined to help achieve a current medium to long-term government policy of Ghana beyond Aid Programme (Asafu-Adjaye, 2005).

### **2.55 Summary of Literature Review**

In this chapter various sources of literature including theoretical, conceptual and empirical literatures connected to the study namely the dependency theory, fiscal rules theory and the endogenous economy growth theory and how they impact job creation have been discussed. The conceptual framework was presented alongside the hypothesis for the study whilst a logical reasoning was derived to link the theory to these hypotheses. A comprehensive review of the Washington consensus and Beijing Consensus was undertaken and their implication on economic development of Ghana assessed. We have shed light on definitions of fiscal discipline, job creation and methods of its measurement through a systematic review of literature. The empirical literature relating to the study largely focused on how fiscal discipline could be achieved by the government of Ghana to positively impact on job creation.

In conclusion, the review of literature has shown many complementary but differing views on fiscal discipline, government spending, the moderating role of budgetary institutions and job creation. The bi-directional relationship between fiscal discipline and job creation was demonstrated by many authors. Whereas some authors indicate a positive relationship between fiscal discipline and job creation, others indicate otherwise. However, in some instances, fiscal discipline and job creation have together influenced each other. It can be said from the point of view of the authors that no concrete relationship exists amongst the variables being studied since

the studies were conducted from diverse economies that also had their various characteristics, the timeframe within which the studies took place and the methodologies they used.

## **CHAPTER THREE RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter focused on the underlying philosophy, paradigms, approaches and strategies for this thesis. According to Merriam Webster (2009) research methodology enables researchers to appreciate the research design, measurement, instrumentation, data collection, sampling techniques, sample size and data analysis technique to be used for the study. The study also discussed the ethical considerations and limitations in this chapter.

### **3.2 Research Paradigm**

A research paradigm represents a body of beliefs which guide a particular scientific study, its approaches, strategies and how results should be explained and presented (Bryman, 1992). A research paradigm connotes the various theoretical positions held by scholars when conducting a particular research in terms of acquiring knowledge (Clark, 1998). Mackenzie and Knipe (2006) cited three different attributes of a paradigm. These included the nature of knowledge, the method used to acquire that knowledge and the validity. The above mentioned attributes form the basis of a research paradigm. Midraj et al (2007) indicated that research is a scientific process and it involves the systematic process of enquiry for collecting and analyzing data to enhance our understanding of nature (DeMarrais & Lapan, 2004). A positivistic paradigm offers the theoretical justification for the use of the scientific method in research. Theories therefore give the framework for explaining constructs and are based on methodical approach, cause and effect relationships.

### **3.3 Motivation for Research Paradigm Choice**

The post-positivist paradigm was considered appropriate for the study. The justification for the choice of this paradigm was the fact that the purpose of the study was to obtain reliable and valid knowledge as a set of universal principles that can explain and predict fiscal discipline and job creation variables (Kim, 2003). The paradigm makes use of a survey design, and quantitative attributes related to job creation. Finally, the study aims to generalize the results of the study. This implies that objectivity is critical whilst the use of scientific method was imperative (Ponterotto, 2002).

### **3.4 Research Philosophy**

A research philosophy is defined as the systematic acquisition of knowledge which a researcher adopts to conduct research (Saunders, et al., 2009). Research philosophies are the guiding principles and theories for research and further explain the processes and procedures for undertaking a particular research work. It entails discussing the various methodologies as well as the strategy relating to the research, the sampling techniques and its overriding significance (Malhotra, 2009). Saunders, et al., (2009) stressed the need for a researcher to select his methodologies based on his appreciation of the philosophies and how he views knowledge development, regardless of its appropriateness. Generally speaking, there are three main research philosophies, namely the ontology, epistemology and axiology. Each research philosophy has its own world view, attributes, assumptions and the systematic procedures for undertaking research.

Research philosophy deals with the source, nature and development of knowledge, (Saunders et al, 2009). One of the most intriguing aspects of research is the thin thread that weaves through the philosophy, the research paradigm, the research strategy and the techniques used for data collection and analysis. Saunders referred to this as the research onion which indicates different philosophies but complementary perspectives and methods for acquiring new knowledge.

### 3.4.1 Philosophy Adopted for the Research

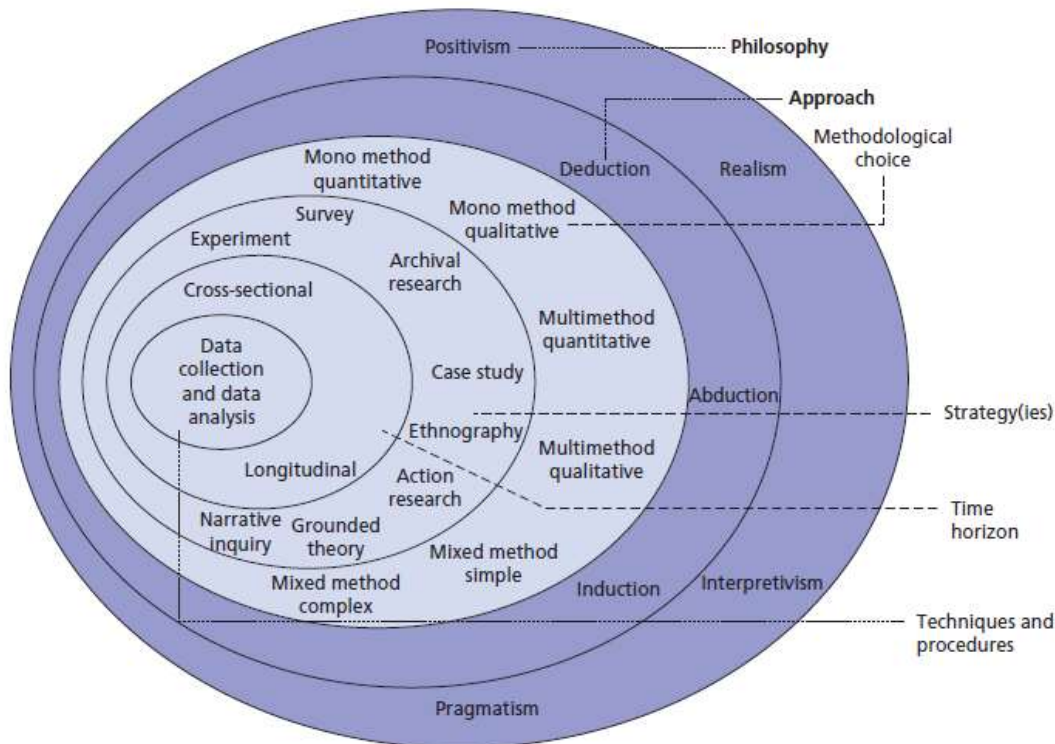
The researcher made use of a quantitative research approach which follows the positivism research philosophy. The researcher also employed econometric models to explain the relationship between fiscal discipline and job creation. One of the most important techniques of modeling relationships and measuring dimensions is econometric models which help to explicate the dependent variables based on a set of predictor variables. According to Mankiw (2015), econometric tools help researchers to forecast, predict and to study relationships better than describing phenomenon. The focus of this study was on investigating the relationship between fiscal discipline and job creation in Ghana and this allowed the researcher to critically analyze government revenue-spending nexus, structural economic transformation, public debt, Chinese Foreign Direct Investment, budget deficit and the implementation of economic growth strategy

	<b>Research Layer</b>	<b>Type of Research Philosophy</b>
1.	<i>Philosophy</i>	<i>Positivism, Realism, Interpretivism and Pragmatism</i>
2.	<i>Approach</i>	<i>Deduction, Abduction and induction</i>
3.	<i>Methodological Choice</i>	<i>Primary, Secondary and mixed-methods</i>
4.	<i>Research Strategies</i>	<i>Experiment, survey, archival research, case study, ethnography, action research, grounded theory, narrative inquiry.</i>
1.	Timeframe	<i>Cross-sectional and Longitudinal</i>
2.	<i>Techniques and Procedures</i>	<i>Data collection and data analysis</i>

to boost job creation.

The identification of the research philosophy is situated at the outer layer of the ‘research onion’, and constitutes the first topic to be explained in research methodology. This is depicted below:

**Figure 3.1 Research Onion Process**



(Saunders et al, 2003)

A systematic study of nature helps researchers to discover the research concepts and constructs used for a particular study. As far as this thesis is concerned, the researcher would use both the positivism philosophies to describe, analyze and to examine the relationship between fiscal discipline and economic growth. However, Interpretivism has some elements of subjectivity whilst positivism is objective.

### 3.5 Research Philosophies and Stages of Research

Saunders et al. (2007) argued that every research comprises six distinct stages. These stages are not mutually exclusive but complementary. The layer of the research process comprises the philosophy which can take the form of positivism, pragmatism, realism or Interpretivism. The second stage involved the selection of the research approach which relates to induction, deduction or abduction. Methodological choice was introduced in stage three and focuses on whether the study was quantitative, qualitative or mixed methods. At the fourth stage, the researcher chose his research strategies and largely involved either a case study or surveys. The period in which the study was conducted was examined at stage five. At the final stage six, the researcher looked at the techniques for collecting and analyzing data for the study.

Consistent with the objectives of the study as well as data available, the researcher selected the post-positivist research paradigm for the study.

### **1.Post Positivism Paradigm**

Positivism relates to the investigation of reality through the development of general laws and models which are utilized by scientists (Remenyi et al., 2009). To develop an appropriate research strategy for the study, the researcher examined the pros and cons of the research strategy from its underlying philosophy which helped the researcher to obtain data through the description of the phenomenon. Post positivism is therefore a research philosophy which challenges the notion of an absolute truth of knowledge and calls for the need to identify and evaluate the causes that influence outcomes (Bryman & Bell, 2011). A major disadvantage of positivism is that it recognizes that one cannot be absolute about claims of knowledge when studying behaviour and actions of the human species (Creswell, 2009). This study therefore made use of post-positivist research paradigm. It holds the view that humans are prejudiced

towards how they view reality and as such it would be difficult to fully explain the truth about reality. The post-positivist theoretical view represents a flexible strategy to the researcher to utilize various techniques to undertake their research based on the research questions posed by the study. Post-positivism refers to a kind of pluralism that reconciles the positivist and interpretivist research paradigms by focusing on issues within the context of what many academicians regard to be acceptable (Burbules, 2000) and (Fischer, 1998).

The post-positivist research paradigm was developed from the positivist paradigm and departs from the objective and deductive approach adopted by the positivists (Ryan, 2006). Post-positivism is a research paradigm that was developed in reaction to the limitation of positivism. According to Kock (2008), researchers have discovered that positivism cannot fulfil the true requirements for social sciences research because it does not involve observation and experimentation. In this regard, the idea of a diversified research paradigm that integrates features of positivism and Interpretivism is required to form the post-positivism (Petter & Gallivan and 2004).

Whereas ontology views research from the nature of reality, epistemology deals with the constituents or composition of satisfactory knowledge in any field of endeavor whilst axiology examines the value system of things, cultures, communities and their judgment about these ethics and values. The current study was aimed at investigating the impact of fiscal discipline on job creation by conducting a survey and making assessment of the topic in order to obtain objective perspectives on the subject matter. The researcher therefore adopted epistemology as his world view and philosophy for this research (Adrian, 2005).

**Epistemology** worldview also comprises positivism, realism and interpretivist (Brannen, 2007).

Ontology is the study of the nature of existence. It is based on the assumption that the study of existence or things in their common form can be grouped into positivism, Interpretivism and pragmatism. Whereas positivism looks at society from an objective perspective, interpretivism considers society from a subjective angle. Pragmatism examines the actions and consequences of society and provides solutions to societal problems and can therefore be classified as either positivism or interpretivism. In order to appreciate the various dimensions of ontology, researchers also examine whether a particular phenomenon being studied exists independently outside society and its influence, in which case it usually brings about objective research or is influenced by society (constructionism). Ontology focuses on empirical and rational research that enables the researcher to interpret the world around him based on his perception of society.

**Table 3.2 Comparison of Research Philosophies**

	<b>Post Positivism</b>	<b>Interpretivism</b>	<b>Pragmatism</b>
<b>ONTOLOGY</b> Researcher's view of reality	Objective and truth exist outside the social setting	Explains social phenomena	Views that explain social phenomena and provides solutions to questions posed by society
<b>EPISTEMOLOGY</b> Researcher's view of what constitutes acceptable knowledge	Scientific, data that can be verified	Subjective and descriptive in nature	Produces clear and scientific but subjective
<b>AXIOLOGY</b> Researcher's view of the role of values in research	Rigorous research process which is independent of the researcher	Less rigorous process in which the researcher is a part	Values influences the researchers interpretation of phenomenon
<b>DATA</b>	Quantitative in nature	Qualitative	Mixed method

COLLECTION TECHNIQUES Most often used			
RESEARCH APPROACH	Deductive	Inductive	Both deductive and inductive approaches are used depending on the type o research

**Source: Saunders et al. (2009)**

### 3.6 Epistemology

Mertens (2009) demonstrated that epistemology relates to existence and the extent to which we can learn from what exists out there. It entails the collection of data about a particular event or occurrence. Using Table 3.2, above explains the various classifications of philosophies of research.

'Positivism' relates to science and the systematic acquisition of knowledge (Babbie, 2005). The focus of positivism is to develop scientific tool of research to help us analyze relationships, forecast variables and to conduct research in its numerical form. In terms of research strategy or approach, the positivist tends to use deductive analysis to test hypothesis in order to develop models and theories (Travers, 2001). The assumption underpinning this philosophy is that reality can be measured independent of its context and that it is possible to objectively conduct research (Hughes & Sharrock, 1997).

Interpretivism as a research philosophy is founded on the assumption that reality is socially constructed and that the meaning of reality is tied to values and phenomena. Proponents of this research philosophy believe that reality can be studied by describing the phenomena through the use of qualitative research strategy (Fisher, 2007). Interpretive research is subjective because it

does lend itself to a methodological approach to the study of nature and reality and therefore employs many and varied perspectives to the conduct of research (Fisher, 2007).

Pragmatism arises out of situations, actions and consequences and reflects what works in practice and often times provide answers to society's nagging problems, (Patton, 1990). Pragmatism does not refer to any research philosophy but the researcher employs both the quantitative and the qualitative strategies to undertake the research. In other words, pragmatists do not see the world as absolute reality. The researcher therefore made use of a post positivist research paradigm in order to test the hypothesis of the study.

### **3.7 Research Design**

Research design is defined by Kumar (2005) as the strategy, processes and techniques used by the researcher to undertake the study. It essentially involves the collection and analysis of data, and the choice of research strategy. The research design for the current study was as a survey used to collect primary data for the study. This allowed the researcher to gather relevant research data over a specific period of time (Ashley, Takyi & Obeng, 2016; Creswell, 2009; Frankfort-Nachmias and Nachmias, 2008). The survey method was undertaken based on a questionnaire which was distributed to respondents.

In order to achieve the objectives of a particular study, the researcher must plan his methodology in such a way that it will reflect both the ontological and epistemological positions. Saunders et al, (2009) posited that a research strategy should be selected based on the nature of the research questions to be answered by the study.

### **3.8 Research Approach**

The study employed a research quantitative approach in analyzing the study. Quantitative research approach focuses on objective facts, numerical data, and its use so that it can help the researcher to generate statistics which can be generalized, and to look at relationships between variables to determine cause and effect. This approach has been adopted by several researchers who studied similar topics on fiscal discipline and job creation (Habanabakize & Meyer, 2018) (Dellis et al., 2017), (Bokpin, Mensah & Asamoah, 2015); (Gul et al., 2012) and (Djokoto, 2012). Quantitative research approach is based on objective statistical data, and its use would help the researcher to generate statistics which can be generalized. Also, by studying the relationships amongst the variables their impact can be determined.

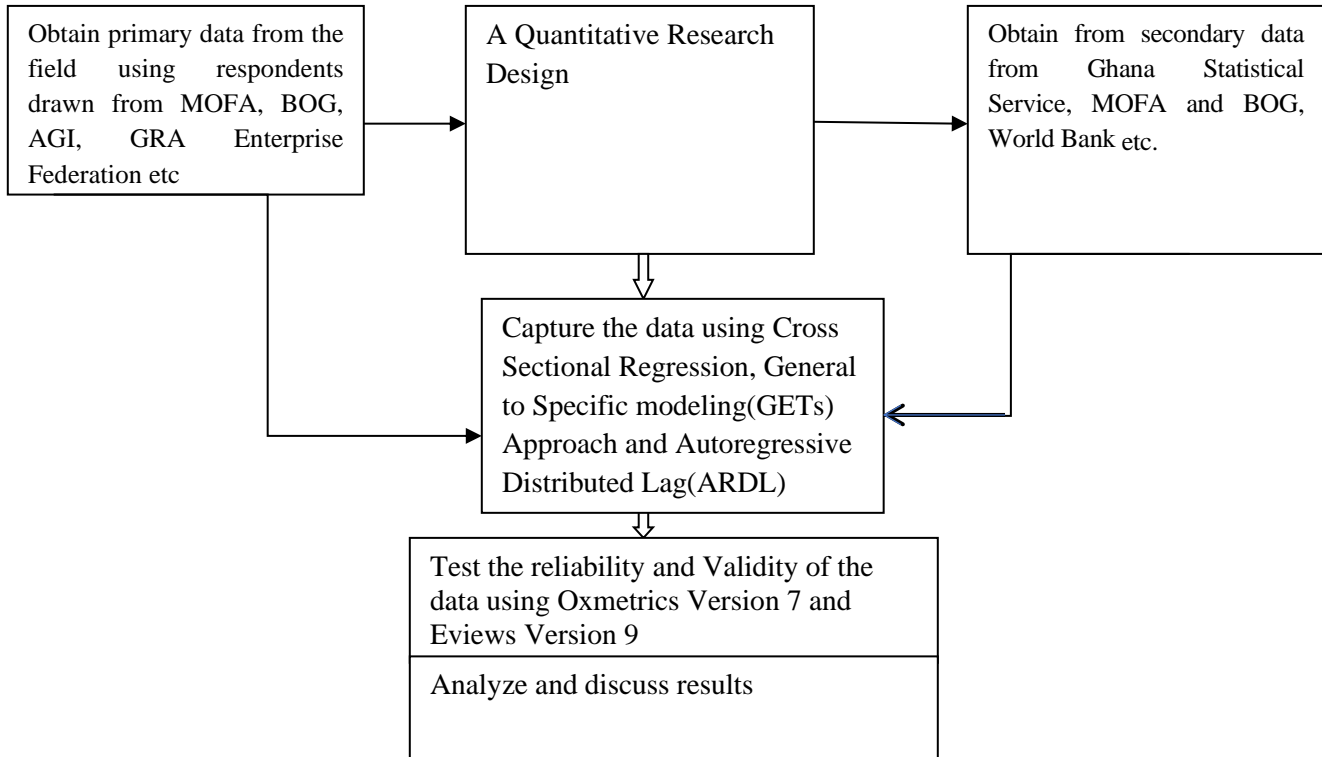
Struwig and Stead (2001) described the key features of a quantitative research as follows:

1. Quantitative research examines variables based on the hypotheses developed from a theory.
2. Measuring these constructs is done through the use of a questionnaire
3. Quantitative research examines causal relationships between constructs
4. Quantitative research enables the researcher to generalize his results
5. In quantitative research the focus of the empirical inquiry is on the individual variables and not the entire group.

The quantitative approach was used to analyze the relationship between fiscal discipline and job creation. To illustrate the quantitative type of research, Saunders et al; (2007) indicated that this method of research would assist the researcher to gather information about the existing condition in numerical form. The rationale for using quantitative method is to critically analyze the relationship that exists between fiscal discipline and job creation. The researcher selected quantitative research in order to formulate logical and deductive conclusions from the study (Bentahar &

Cameron, 2015). Presented below is the diagrammatic representation of the research design that was used for the study.

**Figure 3.3: A Schematic Representation of the Research Approach**



**Source: Adapted from Leedy (1993)**

### 3.9 Research Population

Grove et al. (2014) defined research population as the total individuals with similar attributes for inclusion in a study and who are of particular interest to the researcher. Put differently, population refers to groups and individuals who can answer the research questions because of their background (Ledwaba, 2012).

This population for the study comprises combined staff working with the Ministry of Finance and Economic Planning, the Bank of Ghana, Ghana Revenue Authority, Ministries, Departments and Agencies, the Chinese working with construction, manufacturing, agriculture and retail sectors of the Ghanaian economy. The target population in this research area were Ministers,

economists, bankers, financial analysts, accountants and public sector staff, investment managers and analysts and other professionals within the public sector.

### **3.10 Sampling Technique and Sample Size Determination**

Saunders et al., (2009) refers to sampling as the process of selecting a sufficient number of elements from a population to enable the researcher study the sample unit. It also refers to the methods the researcher would employ to select items for the sample which would eventually determine the sample size. According to Kothari (2004), there are two forms of sampling namely, probability and non-probability sampling techniques. Non-probability involves sampling without the possible likelihood of selecting every member of the population to be chosen for the study whilst in probability sampling, the research would likely ensure that every member of the population has an equal chance of being selected for the study.

The researcher adopted purposive and random sampling techniques to select respondents for the study. According to Pallant (2007) a sample size should be neither optimal, large nor too small to avoid bias. This study made use of the formula developed by (Yamane, 1967) to select the respondents from the targeted population and the minimum desirable sample size.

$$Y = N / (1 + N(e)^2)$$

Where:

Y =sample size

N =total population

e=stochastic error term or margin of error (5%)

Therefore,

$$Y = 20,000 / (1 + 20,000(0.05)^2)$$

$$Y = 20,000 / (1 + 20,00(0.0025))$$

$$Y = 20,000 / 51$$

$$Y = 450$$

A sample size of 450 was used for the study. Presented below is the breakdown of the sample distribution.

**Table 3.2 Sample Distribution**

Bank	Sample Size	Percentage (%)
Ministry of Labour and Employment	26	6
Ghana Revenue Authority	90	20
Ghana Investment Promotion Centre	32	7
Ministry of Finance & Economic Planning	40	9
Institute for Fiscal Studies	10	2
The Bank of Ghana	35	8
Controller and Accountant General's Department	60	13
Chinese Firms operating in Ghana	100	22
Private Enterprise Federation	57	13
<b>Total</b>	<b>450</b>	<b>100</b>

### 3.11 Sources of Data

#### 3.11.1 Primary Data

The researcher made use of primary and secondary sources of data. The use of primary data afforded the researcher the opportunity to collect high quality data from the field. Saunders et al., (2007) argues that the aim of primary data is to explore divergent views on the subject matter as well as get original information (data) from the field. The primary data helped the researcher to answer questions on government revenue, borrowings and structural economic transformation and its impact on fiscal discipline and job creation.

### **3.11.2 Secondary Data**

The researcher also made use of secondary data to examine the relationship between fiscal discipline and job creation. These data were collected from the published time series data obtained from the Central Bank of Ghana's Statistical Bulletin and the Ghana Statistical Service. The data covered key fiscal and economic data and included such variables such as Government Spending, Government Revenue, Budget Deficit, Washington Consensus (Proxied by Inflation) Beijing Consensus (Proxied by Chinese Foreign Direct Investments to Ghana) and Structural Economic Transformation (Proxied by the growth rate of the manufacturing sector to the Gross Domestic Product (GDP) from 1981 to 2019 in Ghana). The variables were converted into natural log form and multiplied by 100 (to approximate annual growth rates in percentage points). The secondary data was used by the researcher to test the hypothesis on public debt, government spending, government revenue, budget deficit, structural economic transformation and the moderating role of the Washington and Beijing Consensus on fiscal discipline and job creation.

**Table 3.3: Sources of Secondary data, Definition and Measurement**

<b>Variable</b>	<b>Measurement</b>	<b>Source</b>
<b>Public Debt</b>	Public Debt was measured as a share of the total Gross Domestic Product	Bank of Ghana
<b>Washington Consensus</b>	Inflation was measured as a proxy for measuring the Washington Consensus	Ghana Statistical Service
<b>Beijing Consensus</b>	Chinese Foreign Direct Investment was used measured as a share of GDP	Ghana Statistical Service
<b>Government Revenue</b>	Government Revenue was measured as a share of total GDP.	Ghana Revenue Authority
<b>Government Spending</b>	Total Government Expenditure as a share of GDP	The Bank of Ghana
<b>Budget Deficit</b>	Budget deficit was measured as a share of GDP	Ministry of Finance

<p><b>Structural Economic Transformation</b></p>	<p>Structural economic transformation was measured as the growth of the manufacturing sector to GDP.</p>	<p>Ghana Statistical Service</p>
--	--	----------------------------------

### 3.11.3 Questionnaire Administration and Primary Data Collection Procedures

The primary instrument of data collection for this study was a questionnaire. According to Kothari (2004) and Grove et al. (2014), a questionnaire is a tool designed to gather data from the field. The essence of the questionnaire was to help the researcher to identify fiscal discipline strategies, approaches and practices that could lead to job creation in Ghana. A list of potential participants/respondents in the research study was drawn after the questionnaire had been approved for data collection by the supervisor of the study. The questionnaires were administered to the selected respondents.

The questionnaires were designed to contain both close-ended (90%) and open-ended (10%) questions. The close-ended questions helped respondents to answer easily and enable the researcher to accumulate and summarize responses quickly and more efficiently. The questionnaire was designed to elicit responses on the main constructs investigated in this study (see appendix A) to gather primary data. As identified in Appendix A, each questionnaire question, matches the research questions used to identify the results. The main questionnaires were then distributed to target respondents. A sample size of 450 questionnaires was targeted. 75 questionnaires were rejected for excessively missing data making the total questionnaire accepted and analyzed to stand at 375. The relationship between fiscal discipline and job creation was

evaluated on a 5-point Likert scale (Likert, 1932). This ranged from 1= strongly disagree, 2 = somewhat disagree, 3 = slightly disagree, 4 = neutral, 5 = strongly agree (see appendix A).

The questionnaire comprises seven sections, namely A, B, C, D, E, F and G. Section A was made up of questionnaire relating to the demographic profile of respondents. Section B examines the relationship between government spending and job creation. Section C discusses government borrowing and its impact on job creation. Section D was aimed at assessing public debt and its impact on job creation. Section E focused on the role of fiscal institutions and budget deficit. Section F of the questionnaire talked about government revenue and job creation. Section G of the questionnaire investigated budget deficit and job creation. Section H focused on structural economic transformation and job creation. The researcher added instructions and guidelines to facilitate the filling of the questionnaires.

### **3.12 Period of Data Collection**

The questionnaire administration and collection took place between the months of June and August, 2019. The respondents had three months to fill the questionnaires and collection took place during the same period.

### **3.13 Pilot Testing**

Pilot testing was conducted with fifteen (15) respondents drawn from the Ministry of Finance & Economic Planning, Ghana, the Bank of Ghana and Private Enterprise Foundation. The respondents were interviewed on the topic before the survey was conducted so that the researcher could have a fair idea of the critical areas of focus and other pertinent issues to address during the administration of the main questionnaires.

### **3.14 Validity and Reliability**

Validity and reliability are two most important measurement tools used in research. As a result, the researcher took measures to maintain validity and reliability of the result of the research. To ensure validity, survey results from previous studies were adopted (wherever necessary) during the development of the questionnaire. Olson (2010) noted that the use of experts to review questionnaire improves the validation process and the collection of quality data.

### **3.14.1 Reliability**

Reliability is defined as the ability of a measuring scale to generate consistent results across time (Hair et al., 2010). Reliability measures the consistency of results and findings over repeated time period (Streubert and Carpenter, 1999). In other words, reliability refers to the consistency of research findings or results if the research is repeated over a period of time (Streubert and Carpenter, 1999). At the same time when two people with same construct measure it separately, they would get the same score. Wallen and Fraenkel (2001) stated that reliability refers to meaningfulness, appropriateness and usefulness of data collected for analysis of which the researcher bases his inferences on.

Kuzel and Engel (2001) argued that the aim of every research is to find the believable and credible outcomes, which calls for the application of validity and reliability. To achieve reliability of the results from the study, the research data was randomly split into two and the scores were calculated based on the Cronbach Alpha Scale. Scores obtained from the calculations of each split was compared to ensure similarity. The scores obtained were correlated and perfectly high for the study to be reliable. A score of 70% was considered for the study.

Additionally, all research materials, results, findings, recommendations and any other relevant data relating to this study were kept and made available to the thesis supervisor for audit trails where necessary.

### **3.14.2 Validity**

Validity establishes the accuracy of a measure and is assessed through face, content and construct validity (Sekaran, 2003), (Cooper & Schindler, 2008), (Saunders, Lewis & Thornhill, 2009) (Collis & Hussey, 2013) and Bryman & Bell, 2015). Validity is particularly important in quantitative studies because it indicates how the key constructs were measured to generate acceptable outcomes of the study (Artebrant et al., 2003).

#### **Face Validity**

Face validity refers to the extent to which the measurement of a construct achieves its stated aims.

#### **Content Validity**

According to Collis & Hussey (2013) content validity ensures that the measures used do actually measure what they are supposed to measure. Content validity is performed in two ways. Firstly, experts with economic background reviewed the constructs (Sekaran, 2013). They evaluated the various items, and checked their definitions according to the constructs (Saunders et al, 2009). After receiving the feedback, the items were modified so that they become suitable for use. The questionnaire was first given to one senior lecturer with economics background to read through and offer constructive suggestions. Finally, my supervisor reviewed the questionnaire and finalized it for use.

**Construct Validity measures** the extent to variables truly measure the construct they are designed to measure (Hair et al, 2010). The statistical approaches for assessing construct validity which are extremely important to marketing scientists are convergent and discriminant validity (McDaniel & Gates, 1996; Sekaran, 2003). The researcher utilized correlation analysis to determine that the constructs have validity. Correlation analysis implies that items that are

indicators of a specific construct should converge or share a high proportion of variance in common (Hair et al., 2006).

### **3.15 Econometric Models used for investigating the relationship between Fiscal Discipline and Job Creation**

Previous analyses have all utilized ordinary least square regression to analyze the effect of fiscal discipline on job creation (Debrun & Kumar, 2007) and (Fabrizio and Mody, 2006). General-to-Specific Modeling (GETS) has been used for analyzing primary data for the study. It is widely used by economists because it provides a systematic framework for statistical economic hypothesis testing, model development and evaluation. Autoregressive Distributive Lag (ARDL) model has been widely used by economists because of their ability to reduce exclusions as well as address endogeneity problems. In the case of ARDL, it has been found to overcome the challenge of endogeneity (Ackah and Kizys, 2015). According to Cheng and Lai (1997), Autoregressive Correction Model helps to reduce the impact of statistical anomalies inherent in the data thereby helping to understand the variables through which economic systems function. By using the Bounds test for the study, the long run relationship between fiscal discipline and job creation as well as unexpected shocks to fiscal vulnerabilities can be estimated. Panel data was not used for the study because the researcher was interested in studying one variable recurring over time. Panel adopts a two-way dimensional approach to analyze (typically cross sectional and longitudinal) panel data. The data are usually collected over time and over the same individuals. The key difference between time series and panel data is that time series focuses on a single individual at multiple time intervals while panel data (or longitudinal data) focuses on multiple individuals at multiple time intervals (Badi, 2019).

The advantage of a panel data is that it controls dependencies of unobserved, independent variables on a dependent variable, and thus avoids biased estimators in linear regression models. Also, panel data has more degrees of freedom and more sample variability than cross-sectional data (Hsiao et al., 1995).

Nonetheless, Autoregressive Distributed Lag in a form of time series regression was used for the study. This is a statistical method used for predicting a future response based on the previous response. It is a kind of time series regression that helps predictors to understand and predict the behaviour of dynamic systems from observations of data.

### **3.16 General-to-Specific (GETS) Modelling**

This thesis employed General to Specific modeling in which Cross-Sectional Ordinary Least Square Regression was used to investigate the relationship between fiscal discipline and job creation. The General-to-Specific modeling methodology that starts modeling with a general unrestricted model (GUM), which layers restricted models and, thus permits any restrictions to be tested to specific modeling. The general to specific modeling was used to answer questions and hypothesis relating to the primary data. According to Hendry (1998) general to specific modeling is best suited for primary data because it analyzes data systematically. Hoover and Perez pointed out that the general-to-specific modeling is good for primary data since it codes data using computer algorithm. In doing so, Hoover and Perez (2018) also argued that general to specific modeling invokes practical modeling. To appreciate why general to specific modeling is good for primary data, Hoover and Perez's enumerated a number of most basic steps for an algorithm as follow:

1. Ascertaining the general statistical congruence
2. Eliminating variables that meet the simplification criteria.
3. Checking the congruence of the simplified model.
4. Repeating steps 2

and 3 until none of the remaining variables can be eliminated. Pagan (1987) has argued that the outcome of general-to-specific modeling is informative because it produces data for analysis that is original.

The general form of General Unrestricted Model is as follows:

$$Y = X\beta + Z\gamma + W\lambda\delta + \varepsilon \dots \dots \dots \text{Eq.(1)}$$

Using t-tests, and F-tests, the GUM is reduced to a specific and more parsimonious model. This leads to the second equation in which the data has been sequentially reduced.

$$Y = X\beta + \varepsilon \dots \dots \dots \text{Eq.(2)}$$

In the general to specific, linear system, often called the unrestricted reduced form(URF), takes the form:

$$Y_t = \sum_{i=1}^m \pi_i y_{t-i} + \sum_{j=0}^r \theta_j y_{t-j} + \sum_{k=1}^q \alpha_k z_{t-k} + v_t \text{ for } t = 1, T \dots \dots \dots \text{Eq. (3)}$$

where  $y_t$ ,  $z_t$  are respectively  $n \times 1$  and  $q \times 1$  vectors of observations and the endogenous variables.

$$\Delta Y_t = \sum_{i=1}^m \delta_i \Delta y_{t-i} + \theta_0 y_{t-1} + \sum_{j=1}^r \theta_j y_{t-j} + \sum_{k=1}^q \alpha_k z_{t-k} + v_t \text{ for } t = 1, T \dots \dots \dots \text{(Eq4)}$$

Where  $w'_t = (y'_{t-1}, y'_{t-m}, z'_t, \dots, z'_{t-r})$  are the parameters

### 3.17 Model Selection Strategies for General-to-Specific Modelling

The general-to-specific modeling involves three main steps:

1. Step 1 There is the need to check the GUM so that it is free from any diagnostic problems. Check residuals in the GUM to ensure that they possess acceptable properties. (For example, test for heteroscedasticity, white noise, incorrect functional form, etc.).
2. Step 2 - Test the implicit restrictions relating to the specific model against the general model by test of exclusion.

3. Step 3 - If the restricted model is accepted, test its residuals to ensure that this more specific model is still acceptable on diagnostic grounds.

GETS modeling is convenient because it takes the linear regression model  $y_t = \beta_1 x_{1t} + \dots + \beta_k x_{kt} + u_t$ ,  $t = 1, 2, \dots, n$ , (1) where  $y_t$  is the dependent variable, the  $\beta$ 's are slope coefficients, the  $x$ 's are the regressors and  $u_t$  is a zero mean error term. GETS modeling assumes there exists at least one "local" data generating process (LDGP) nested in (1). By philosophical assumption the DGP is not contained in the simple model according to Sucarrat et al, (2010) and Doornik, (2014). The qualifier "local" thus means it is assumed that there exists a specification within (1) that is a statistically valid representation of the DGP.

Henceforth, for notational and theoretical convenience, we will assume there exists only a single LDGP, but this is not a necessary condition. A variable  $x_{jt}$ ,  $j \in \{1, \dots, k\}$ , is said to be relevant if  $\beta_j \neq 0$  and irrelevant if  $\beta_j = 0$ . Let  $k_{rel} \geq 0$  and  $k_{irr} \geq 0$  denote the number of relevant and irrelevant variables, respectively, such that  $k_{rel} + k_{irr} = k$ .

GETS modeling aims at finding a specification that contains as many relevant variables as possible, and a proportion of irrelevant variables that corresponds to the significance level  $\alpha$  chosen by the investigator. Put differently, if  $b_{k_{rel}}$  and  $b_{k_{irr}}$  are the retained number of relevant and irrelevant variables, respectively, then GETS modeling aims at satisfying  $E(b_{k_{rel}}/k_{rel}) \rightarrow 1$  and  $E(b_{k_{irr}}/k_{irr}) \rightarrow \alpha$  as  $n \rightarrow \infty$ , (2) when  $k_{rel}, k_{irr} > 0$ . If either  $k_{rel} = 0$  or  $k_{irr} = 0$ , then the criteria are modified in the obvious ways: If  $k_{rel} = 0$ , then  $E(b_{k_{rel}}) = 0$ , and if  $k_{irr} = 0$ , then  $E(b_{k_{irr}}) = 0$ . The proportion of spuriously retained variables, i.e.,  $b_{k_{irr}}/k_{irr}$ , is also referred to as gauge in the GETS literature, with distributional results on the gauge for a specific case provided in Johansen and Nielsen (2016). The relevance proportion, i.e.,  $b_{k_{rel}}/k_{rel}$ , is also referred to as

potency in the GETS literature since the irrelevance proportion corresponds well to the nominal regressors significance level  $\alpha$ .

### **3.18 Justification for the use of the GETS Modelling Approach**

The justification for the use of general-to-specific modeling was explained by Bauwens et al. (2005), who indicated that the use of the methodology was based on statistical properties. The model provided specifications that were simple, parsimonious and entailed little or no effort to develop. The motivation behind this distinction was that it enabled the researcher to gauge the potential forecast precision in the ideal case where the values of the unknown information are correct. This was of particular interest since the GETS methodology often is championed for its ability to develop models appropriate for scenario analysis (counterfactual analysis, policy analysis, conditional forecasting, etc.), where conditioning on unknown information plays an important part.

The distinction is also of practical interest; since it enables the researcher to investigate whether GETS models with unknown information improves upon the prediction accuracy of models without unknown information, when the unknown information has to be predicted. The GETS models are relatively consistent in that they tend to be more accurate than other econometric benchmark models. In particular, the GETS specification that employs observed values of the unknown information comes first up to six weeks ahead according to both measures, and when the same specification uses forecasted instead of observed values of the unknown information then it comes first or second on all horizons according to one of our measures. The main strengths of the GETS-methodology is that it provides a systematic framework for statistical-economic hypothesis. Testing, model development and model evaluation, A GETS approach was considered to be a useful choice for modelling because of the underlying theory and also does

not admit a wide range of regressors (Hendry and Krolzig, 1999). Reduction of the model, by elimination of statistically irrelevant variables, to a parsimonious, congruent model allows for more efficient estimation and inference.

### **3.19 Modelling and Methodological Issues**

Modelling was based on a positive and constructive data mining technique, the general-to-specific approach that aims to build empirical models that are economically sensible and statistically satisfactory, Hendry (1995), Campos and Ericsson (1999) and Hoover and Perez (1999). The model starts with an over-parameterized model—General Unrestricted Model (GUM) - that nests the DGP and conducts mis-specification tests for congruence. In this process, rigorous testing and evaluation, and some restrictions on the model are important to ensure valid statistical inference, as described in the dynamic econometric methodology (Hendry, 1995).

The primary role of the GUM is to define the innovation process in the statistical analysis, and to determine the variance of that innovation process such that no other model on the same data dominates. The residuals should therefore be innovations against available information. While the GUM is itself a reduction, it ought to be able to account for all previous results produced when analyzing the same data-set. Economic theory information helps specify the vector of parameters of interest; however, the parameters of interest might come from a data-instigated model. However, theory consistency is essential, so that there is no evaluation conflict between the model and the theory interpretation. Hence, aim to conclude with a parsimonious model which has orthogonal regressors as well as satisfying the necessary conditions for both congruence and encompassing. Parsimony is essential for test power and for interpretability and to sustain parameter constancy; whereas orthogonality is useful for robustness and for testing for

the marginal significance of each variable in isolation as well as for interpretability. However, the general-to-specific modelling still suffers from the following weaknesses:

1. **Repeated Testing:** Regressors are chosen with the view to maximizing the t-ratios.
2. **Data Interdependence:** Non-constant coefficient might result due to omitted regressors that are correlated with those that have been included in the model.
3. **Corroboration:** The regressors are selected based on a standard measure such as practical coefficient estimates.
4. **Over-parameterization:** If the model is sometimes over-fitted, it has many degrees of freedom.

Despite the above mentioned weaknesses, GETS modelling was considered to be a useful choice for modelling fiscal discipline and job creation. Hendry and Krolzig (1999) demonstrated that the GETS modeling approach has the ability to eliminate the statistically irrelevant variables, to a parsimonious, congruent model allowing for more efficient estimation and statistical inference and this permitted the researcher to specially focus on variables of fiscal discipline variables that impact on job creation.

### **3.20 Model Specification**

The model for the study was based on primary data collected from the field. Baltagi, (2005) indicated that for a meaningful interaction of fiscal discipline and job creation, there is the need to check the model for heterogeneity and normality to control the overlooked features of fiscal discipline that might not be included in this model. It builds on the earlier research conducted by Athanasoglou et al., (2008), Dietrich and Wanzenried (2011), who utilized this approach to

examine the relationship between fiscal discipline and job creation. The general form of the econometric model for the study is the cross-sectional OLS regression. The general form of the PC Give Cross-sectional OLS model is given as:

$$Y_i = B_1 + B_2X_{2i} + B_3X_{3i} + \dots + B_kX_{ki} + u_i \dots \dots \dots \text{(Eq5)}$$

Or, as written in short form:  $Y_i = BX + u_i$

Where  $Y$  is the regress and,  $X$  is a vector of regressors, and  $u$  is an error term

The sample counterpart is:

$$Y_i = b_1 + b_2X_{2i} + b_3X_{3i} + \dots + b_kX_{ki} + e_i \dots \dots \dots \text{(Eq6)}$$

Or, as written in short form as:

$$Y_i = \mathbf{bX} + e_i$$

where  $e$  is a residual. The deterministic component is written as:

$$\hat{Y}_i = b_1 + b_2X_{2i} + b_3X_{3i} + \dots + b_kX_{ki} = \mathbf{bX} \dots \dots \dots \text{(Eq7)}$$

The General Unrestricted Model (GUM) in its vector form can be written as:

$$\begin{aligned} y_t = & \sum_{i=1}^K \beta_i z_{i,t} + \sum_{i=1}^K \theta_i z_{i,t}^2 + \sum_{i=1}^K \gamma_i z_{i,t}^3 + \sum_{i=1}^K \sum_{j>i}^K \lambda_{i,j} z_{i,t} z_{j,t} \\ & + \sum_{i=1}^K \sum_{j \geq i}^K \sum_{k>j}^K \psi_{i,j,k} z_{i,t} z_{j,t} z_{k,t} + \sum_{i=1}^T \delta_i 1_{\{i=t\}} + \epsilon_t \end{aligned}$$

=  $r \times s$  potential regressors,  $z_t$ , after lags of  $x_t$ , plus  $T$  indicators  $1_{\{i=t\}}$ . Bound to have

$N > T$ ,  $x_t$  could also be modelled as a system

If  $x_1, \dots, x_T$  are IID  $[\mu, \sigma_\epsilon^2]$ , then the estimator  $\tilde{\mu}$  is:

$$\tilde{\mu} = \frac{\sum_{i=1}^{0.5T} x_i 1_{\{|x_i - \bar{x}_2| \leq c_\alpha\}} + \sum_{j=0.5T+1}^T x_j 1_{\{|x_j - \bar{x}_1| \leq c_\alpha\}}}{\sum_{i=1}^{0.5T} 1_{\{|x_i - \bar{x}_2| \leq c_\alpha\}} + \sum_{j=0.5T+1}^T 1_{\{|x_j - \bar{x}_1| \leq c_\alpha\}}}$$

so:  $T^{1/2}(\tilde{\mu} - \mu) \rightarrow N [0, \sigma_\epsilon^2 \sigma_\mu^2]$

$$\text{where: } \sigma_{\mu}^2 = \frac{1}{P(c_{\alpha})} \left( 1 + 4c_{\alpha} f(c_{\alpha}) - \frac{2c_{\alpha} f(c_{\alpha})}{P(c_{\alpha})} - \frac{4c_{\alpha}^2 f(c_{\alpha})^2}{P(c_{\alpha})} \right) \quad (41)$$

$$\text{When: } P(c_{\alpha}) = P(|\hat{u}| \leq c_{\alpha} \sigma_{\epsilon}) = \int_{-c_{\alpha}}^{c_{\alpha}} f(u) du$$

measures the impact of truncating the residuals

**Rewriting the equation to exclude the vector term gives the following equation:**

$$(i) \pi_{it} = \alpha + \partial \pi_{i,t-1} + \sum_{j=1}^J \beta_j X_{it}^j + \sum_{l=1}^L \beta_l X_{it}^l + \sum_{k=1}^M \beta_m X_{it}^m + u_{it}, \quad u_{it} = \mu_i + v_{it} \quad \dots(8)$$

**Where the dependent variable**

$(\pi_{it})$  Measures job creation,

The model further consists of a constant term, measured by the scalar  $\alpha$ , and of a vector of  $k \times 1$  slope parameters  $(\beta)$  that estimate the significance of the independent variables.

The independent variables comprise  $1 \times k$  vectors of fiscal discipline  $(X_{it}^j)$ , structural economic transformation  $(X_{it}^l)$ , public debt, budget deficit, fiscal institutions, government spending and government revenue  $(X_{it}^m)$ , where  $k$  represents the slope or the gradient.

### 3.21 Selection of Variables for Primary Data Analysis

The selection of the variables was done from theory and literature review. The literature was reviewed to explain the various dimensions. The study conducted by (Yazdanfar, 2011) showed that there was an association between fiscal discipline and job creation. However, variables such as government spending, structural economic transformation, budget deficit, borrowing, and budget monitoring and political commitment can negatively or positively impact on job creation.

### 3.22 Dependent Variable

The dependent variable is job creation and is measured by the total number of jobs created in the economy per year.

### 3.23 Independent Variables Description

The independent variables comprise government borrowings, public debt, government spending, government revenue, structural economic transformation, fiscal institutions, budget deficit, etc. According to Oliveira & Fortunato (2006), the most effective measure of job creation is at the firm or sectorial level (Carpenter & Petersen, 2002). These equations were used to test the hypothesis.

**1. Government Spending** refers and to the overall expenditure of government, including capital expenditure and recurrent expenditure.

**2. Government Revenue represents** the total revenue mobilized the government in a year, including grants and transfers, to the sum of government revenues at the subnational and central government level

**3. Fiscal Institutions** are independent institutions charged with the promotion of sustainable public finances through various functions, including forecasting, monitoring of government budget to ensure compliance with fiscal rules, and macroeconomic targets.

**4. Public Debt is** the total debt of a country expressed as a percentage of the Gross Domestic Product.

**5. Structural Economic transformation** refers to the reallocation of economic activity across three broad sectors namely (agriculture, manufacturing and services). The rationale is for effective allocation of resources to achieve sound economic growth and development.

**6. Government Borrowing** represents monies taken by the government of Ghana to spend on public services. It takes the form of securities, bonds and bills.

**Table 3.4 Measurement of Primary Data Variables**

<b>Variable</b>	<b>Measurement</b>	<b>Expected Sign</b>
Job Creation	The average growth in Total employment for a year	+
Government Spending	The total expenditure of Ghana as a percentage of GDP	+/-
Government Revenue	Total revenue by Ghana as a percentage of GDP	+
Public debt	Total debt of Ghana as a share of GDP	+/-
Government borrowing	Total external and domestic borrowings as a percentage of GDP	+/-
Structural economic transformation	Modernization of agriculture, skills development and growth of the manufacturing sector as a percentage of GDP	+

The first equation tests the impact of fiscal discipline on job creation using the General to specific approach. This implies that all the fiscal discipline variables will be tested against job creation. Beyond equation 1, specific modeling of the individual variables that were statistically significant was subsequently tested. Thus, equation 2 tests the components of government spending on job creation. Equation 3 tests the individual elements of structural economic

transformation on job creation. Similarly, equation 4 tests the key elements of public debt against job creation whilst equation 5 examines the relationship between government borrowing elements and job creation.

The first equation focused on the relationship between fiscal discipline and job creation and was written as:

$$JC = \beta_0 + \beta_1 GOV + \beta_2 GOVB + \beta_3 GOVR + \beta_4 FI + \beta_5 TPD + \beta_6 SET + e \dots \dots \dots (1)$$

Where:

JC= Job Creation

1. GOV= Government Spending
2. GOVB= Government Borrowing
3. GOVR= Government Revenue
4. FI=Fiscal Institutions
5. PD=Public Debt
6. SET=Structural Economic Transformation

e = Stochastic error or disturbance term.

t = Time dimension of the Variables

$\beta_0$  = Constant or Intercept.

B1-B6= Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (tested at 5% level of significance) are such that  $\beta_1 - \beta_6 > 0$ .

The second equation was on government spending and its impact on job creation and was written as:

$$JC = \beta_0 + \beta_1 RE + \beta_2 CE + \beta_3 GT + \beta_4 WBM + \beta_5 SB + e \dots \dots \dots (2)$$

Where:

GOV= Government Spending

1. Recurrent Expenditure

2. Capital Expenditure

3. Government Transfers

4. Weak Budget monitoring

5. Supplementary Budget

e = Stochastic error or disturbance term.

t = Time dimension of the Variables

$\beta_0$  = Constant or Intercept.

B1-B5 = Coefficients to be estimated

The expected signs of the coefficients (tested at 5% level of significance) are such that  $\beta_1 - \beta_{14} > 0$ .

The third equation investigated the relationship between structural economic transformation and job creation.

$$JC = \beta_0 + \beta_1 WC + \beta_2 BC + \beta_3 BD + \beta_4 DM + \beta_5 PTRM + e \dots \dots \dots (3)$$

Where:

1. Restructuring Educational System

2. Government Industrialization policy

3. Creating Enabling Environment

4. Home Grown policy

5. Modernization of agriculture

6. Digitization and formalization of the economy

e = Stochastic error or disturbance term.

$\beta_0$  = Constant or Intercept.

B1-B6= Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (tested at 5% level of significance) are such that  $\beta_1 - \beta_7 > 0$ . The fourth equation assessed the relationship between public debt and job creation and thus was written as:

$$JC = \beta_0 + \beta_1 DMS + \beta_2 SF + \beta_3 DS + \beta_4 P + e \dots \dots \dots (4)$$

Where:

1. Ghana has a robust debt management strategy
2. Ghana has a sinking fund to pay its debts
3. Debt Sustainability
4. Lack of Political Commitment

e = Stochastic error or disturbance term.

t = Time dimension of the Variables

$\beta_0$  = Constant or Intercept.

B1-B4 = Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (tested at 5% level of significance) are such that  $\beta_1 - \beta_4 > 0$ .

The fifth equation assessed the relationship between government borrowing and job creation and thus was written as:

$$JC = \beta_0 + \beta_1 EP + \beta_2 SP + \beta_3 EM + \beta_4 FER + \beta_5 DS + e \dots \dots \dots (5)$$

Where:

1. Borrowing for Economic Projects
2. Borrowing for Social Projects
3. Borrowing from Eurobond Market
4. Foreign Exchange Risk
5. Borrowing from Diversified Sources

$e$  = Stochastic error or disturbance term

$t$  = Time dimension of the Variables

$\beta_0$  = Constant or Intercept.

$\beta_1$ - $\beta_5$  = Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (tested at 5% level of significance) are such that  $\beta_1 - \beta_5 > 0$ .

## Secondary Data Analysis

### 3.24 Autoregressive Distributed Lag Approach

Autoregressive Distributed Lag Approach has been used in the second stage of this study to analyze both the short-run and long-run relationship between fiscal discipline and job creation. It is used for testing for cointegration and is particularly useful when the variables in question have both stationary and non-stationary time-series. In its basic form, an ARDL regression model is expressed as follows:

$$y_t = \beta_0 + \beta_1 y_{t-1} + \dots + \beta_p y_{t-p} + \alpha_0 x_t + \alpha_1 x_{t-1} + \alpha_2 x_{t-2} + \dots + \alpha_q x_{t-q} + \varepsilon_t$$

where  $\varepsilon_t$  is a random "disturbance" term. The model is "autoregressive", in that  $y_t$  is "explained" partly by lagged values of itself. It also has a "distributed lag" component, in the form of independent variable denoted by  $X$ .

According to Pesaran & Smith (1998), the use of the Auto Regressive Distributed Lag has been found useful for long run analysis particularly in a developing context where it is difficult to get data for longer time period. Pesaran & Pesaran (1997) maintained that the flexibility of the ARDL model made it possible to analyze data that are integrated at both  $I(0)$  and  $I(1)$ . The ARDL can take sufficient lags to capture the short run and long run relationships. Finally, the error correction term (ECT) is found through linear transformation (Pesaran & Smith, 1998).

### 3.25 Modelling Fiscal Discipline and Job Creation using Autoregressive Distributed Lag

One of the most widely used analytical frameworks for assessing fiscal discipline and job creation is the ARDL Approach. To enhance data analysis and applicability, the researcher made used of both Autoregressive Distributed Lag (ARDL) and Granger causality to understand the relationship that exists amongst them in the context of Ghana. The rationale for combining trend analysis, fiscal reaction functions to the ARLD Approach was to help predict the direction of the relationship and to validate the econometric analysis. The ARLD Approach adopted for the study was employed by Mohanty (2012) to investigate the association between fiscal discipline and job creation in India and is specified as follows:

$$JC = f (GS, GR, BD, MANU,PD ).....(1)$$

Where JC is Job Creation, GS is government spending, GR is government revenue BD is Budget Deficit and PD is Public Debt

$$JC = \beta_0 + \beta_1GS + \beta_2GRt + \beta_3BDt + \beta_4PBt + \beta_5MANUt + \epsilon_t \dots \dots \dots (2)$$

By taking the natural log of equation (2) for linearity gives equation (3)

$$\ln JC = \beta_0 + \beta_1 \ln GS_t + \beta_2 \ln GR_t + \beta_3 \ln BD_t + \beta_4 \ln PB_t + \beta_5 \ln MANU_t + \epsilon \dots \dots \dots (3)$$

Differencing equation (3) provides the growth equation for (4) which is stated as:

$$\ln \Delta JC = \beta_0 + \beta_1 \Delta \ln GS_t + \beta_2 \Delta \ln GR_t + \beta_3 \Delta \ln BD_t + \beta_4 \Delta \ln PB_t + \beta_5 \Delta \ln MANU_t + v_t \dots \dots (4)$$

Where  $\ln$  refers to the natural logarithmic operator whilst  $\Delta$  is the difference operator. The coefficients  $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  include the various elasticities of the variables,  $\beta_0$  is the drift,  $t$  indicates time whilst  $v_t$  is the error term.

According to Pesaran and Pesaran (2009) the ARDL model is used to assess the long term and short run association between fiscal discipline and job creation. Johansen cointegration techniques on the other hand, work best when the sample sizes are relatively larger. On the contrary, the ARDL Approach eliminates this by validation that are related to standard cointegration, through classification of variables into the (I) or (0) (Pesaran et al., 2001). In a study conducted by (2006) he indicated that the use of the ARDL Approach is particularly significant when researchers are examining independent variables and are correlated with the error term. Using the Unrestricted Error Correction Model and the ARDL approach, cointegration between short term and long-run relationships are established.

This has the advantage of unrestricted intercepts with no underlying trends according to Pesaran et al (2001). Having tested for cointegration, vector error correction model (VECM) was used to investigate the long-run relationship between fiscal discipline and job creation, the dynamics and error correction in the short run. The long-run impact of fiscal discipline on job creation was expressed in Unrestricted Error Vector Correction representation as:

$$\Delta \ln JC_t = \beta_0 + \alpha \ln JC_{t-1} + \beta_1 \ln GST_t + \beta_2 \ln GR_t + \beta_3 \ln BD_t + \beta_4 \ln PB_t + \beta_5 \ln MANU_t + \sum_{i=1}^p \phi_i \Delta \ln JC_{t-i} + \sum_{i=1}^p \varphi_{1i} \Delta \ln GST_{t-i} + \sum_{i=1}^p \varphi_{2i} \Delta \ln GR_{t-i} + \sum_{i=1}^p \varphi_{3i} \Delta \ln BD_{t-i} + \sum_{i=1}^p \varphi_{4i} \Delta \ln PB_{t-i} + \sum_{i=1}^p \varphi_{5i} \Delta \ln MANU_{t-i} + v_t \dots \dots \dots (4)$$

Where  $\Delta$  is the first difference operator,  $P$  is the lag order selected by the Schwarz Bayesian Criterion (SBC),  $\beta_0$  is the point parameter and  $v_t$  is the error term which is  $(0, \delta^2)$ . The

parameters  $\alpha$  and  $\beta_{ij}$  refer to the long-run multipliers whereas  $\Phi$  and  $\phi_{ij}$  are short-run parameters. The first step in the ARDL approach involves applying Ordinary Least Square method of estimation. Thereafter, the calculated F-test is employed to check the association between fiscal discipline and job creation. By limiting the coefficients of the lagged level variables to zero, the long run relationship between the variables is determined. Equation (4) is validated against the alternative hypothesis. This is specified as:

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0, H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq 0$$

After establishing the cointegration, it is important to estimate the ARDL Approach to derive the long and short-run coefficients as follows:

$$\ln JC_t = \omega_0 + \sum_{i=1}^p \lambda_i \ln JC_{t-i} + \sum_{i=1}^p \beta_1 \ln GS_{t-i} + \sum_{i=1}^p \beta_2 \ln GR_{t-i} + \sum_{i=1}^p \beta_3 \ln BD_{t-i} + \sum_{i=1}^p \beta_4 \ln PD_{t-1} + \sum_{i=1}^p \beta_5 \ln MANU_{t-i} + \sum_{i=1}^p \beta_7 \ln BD_{t-i} + v_t \dots \dots \dots (5)$$

The error correction version of the ARDL model is specified as follows:

$$\Delta \ln JC_t = \lambda_0 + \sum_{i=1}^p \phi_i \ln JC_{t-i} + \sum_{i=1}^p \phi_1 \Delta \ln GS_{t-i} + \sum_{i=1}^p \phi_2 \Delta \ln GR_{t-i} + \sum_{i=1}^p \phi_3 \Delta \ln BD_{t-i} + \sum_{i=1}^p \phi_4 \Delta \ln PB_{t-i} + \sum_{i=1}^p \phi_5 \Delta \ln MANU_{t-i} + \psi ECT_{t-1} + \epsilon_t \dots \dots \dots (6)$$

Where  $\psi$  denotes the reaction to long-run stability when there is a shock whilst  $ECT_{t-1}$  is the error-correction term, which is computed as the cointegration of the residuals which is lagged by one year. The predicted sign ( $\psi$ ) for the model is negative and should be statistically valid to provide a confirmation to the presence of long-term relationship between fiscal discipline and job creation.

**3.26 Estimation Procedure**

**3.26.1 Descriptive Statistics**

Descriptive statistics was used to explain the features of both the independent and dependent variables. Measures of central tendency such as the mean, variances and skewness was used to describe the variables in order to know the extent of deviations as well as the features of fiscal discipline and job creation.

### 3.26.2 Stationarity Test

A stationary test was conducted after taking the natural log of the individual variables. To avoid spurious regression, the variables were checked for stationarity using Augmented Dickey Fuller Test.

### 3.26.3 Augmented Dickey Fuller Test

According to Dickey & Fuller (1976), every time series has a property of stationarity and must be met before subsequent tests are run. As a general rule, if the absolute value of the t-statistic is higher than that of the 5% confident level, stationarity of the variable is accepted. Augmented Dickey-Fuller (ADF) and Phillip-Perron (PP) were employed to tests for unit root. The ADF approach to unit root takes the equation below:

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + \sum_{i=1}^m \alpha_i \Delta Y_{t-i} + \varepsilon_t \quad (4)$$

$H_0 \quad \delta$

Null hypothesis = 0 (implying that the series are not stationary)

Alternative hypothesis: < 0 (implying that the series are stationary).

### 3.26.4 Phillip Peron Test

The Philip Peron test was also conducted to confirm the ADF test results as well as check the internal consistency of the model. The stationarity of variables was determined and verified at level, intercept with trend and first difference.

### **3.26.5 Estimation of the Short-Run Relationship**

Using the ARDL approach the short run relationship between fiscal discipline and job creation was determined.

### **3.26.6 Estimation of the Long-Run Relationship**

The researcher made use of the bounds test to investigate the relationship between fiscal discipline and job creation in the long term. The justification for the use of the bound test was to determine if the variables in the model share the same stochastic trend.

### **3.26.7 Diagnostic Tests**

The results from the short run and long run were checked for auto correlation and heteroscedasticity to determine if the standard error of the regression was biased and gave a spurious result. A model that has issues of heteroscedasticity and serial correlation would generate an untrusted coefficient. Accordingly, Breusch-Pagan-Godfrey test was performed to check the presence of heteroscedasticity in the regression using F statistics test and probability. It also checked the stability and robustness of the model.

### **3.26.8 Granger Causality Test**

The Granger causality test was performed to investigate the uni-directional causal relationship between fiscal discipline and job creation. The researcher conducted a granger causality test after the estimation of the error correction model.

### 3.27 Procedures for Testing the Moderating Variables

The study adopted dynamic multiple regression approach for conducting the moderation test. For testing the moderating role or impact of fiscal discipline on job creation, the following equations were developed:

$$\text{InJobcreation} = \alpha + \beta \ln \text{GS} + \ln \text{GR} + \ln \text{BD} + \ln \text{PD} + \ln \text{Manu} + s \dots \text{Eq (1)}$$

$$\text{Washington Consensus} = \alpha + \beta \ln \text{GS} * \text{I} + \ln \text{GR} * \text{I} + \ln \text{BD} * \text{I} + \ln \text{PD} * \text{I} + \ln \text{Manu} * \text{I} + s \dots \text{Eq (2)}$$

$$\text{Beijing Consensus} = \alpha + \beta \ln \text{GS} * \text{CDFI} + \ln \text{GR} * \text{CDFI} + \ln \text{BD} * \text{CDFI} + \ln \text{PD} * \text{CDFI} + \ln \text{Manu} * \text{CDFI} + s \dots \text{Eq (3)}$$

$$\text{Washington Consensus and Beijing Consensus} = \alpha + \beta \ln \text{W} * \beta \ln \text{B} + s \dots \text{Eq (4)}$$

#### Where

Job Creation=Dependent variable

GS, GR, BD,PD and MANU =Independent variables

Equation 1= Base equation which examines fiscal discipline and job creation

Equation2=The moderating role of inflation on fiscal discipline and job creation

Equation3= The moderating role of Chinese Foreign Direct Investment on fiscal discipline and job creation

Equation4 =Assess the joint moderation impact between Inflation (Washington Consensus) and (Beijing Consensus) Chinese Foreign Direct Investment on job creation.

S=the error term

### 3.28 Preliminary Data Analysis

The research conducted preliminary test before the main data was analyzed. These included normality and common method variance tests.

#### 3.28.1 Normality Test

Normality is very important in statistical estimation and relationship testing as it helps to minimize the occurrence of sample bias by using larger sample size (Hulland et al., 1996). The researcher employed One-Sample Kolmogorov-Smirnov and Shapiro Wilk Tests to test for normality.

#### 3.28.2 Common Method Variance/Bias

Common method variance refers to the amount of spurious covariance shared among variables because of the common method used in collecting data (Podsakoff et al., 2003). Common Method Variance shows if there exist any skewed correlations between constructs in a model. To do away with the common method bias effect, there should be procedural separation between dependent and independent variables and improvement in scale items. Harman's single-factor test was used as a statistical tool to identify the presence of common method variance. Various statistical tools employed in this study for primary and secondary data analysis are shown in table below:

**Table 3.4 Statistical Tools Employed for Primary Data Analysis**

Type of Test	Statistical Tool
Reliability	Cronbach Alpha
Validity	Correlation Matrix
Common Method Bias	Harman's Single Factor Test
Model Validation	General to Specific (GETS) Modeling

### 3.4 Statistical Tools Employed for Secondary Data Analysis

Type of Test	Statistical Tool
Reliability	Cronbach Alpha
Validity	Correlation Matrix
Moderation Variables	Dynamic Regression-Based Moderation Test
Model Validation	Auto Regressive Distributed Lag (ARDL)

#### 3.28.3 Harman Single-Factor Test

Harman Single-Factor Test (HSFT) was adopted to check the presence of common method bias in the study. The general rule is that if a single factor explains more than 50% of the construct then the likelihood of bias is high in the data (Podsakoff & Organ, 1986). The results were checked to find out if there were any prejudiced responses.

#### 3.29 Data Analysis for the Primary Data

The primary data was analyzed using Oxmetrics Version 7 Software. The primary data was analyzed through thematic summarizations. Responses that were obtained through the administration of the questionnaire were coded, cleaned, edited, analyzed and presented using tables, bar charts and pie charts. Cross-sectional multiple regression coefficients were used to measure the strength of association between fiscal discipline and job creation at 5% level of significance.

According to Kothari (2004), data analysis entails the computation of specific measures along with searching for relationship patterns that exist among data groups and in the process, subjecting the relationships or differences supporting or conflicting with original or new hypotheses to statistical tests in order to determine what valid data indicates the research conclusion.

Data analysis was conducted by collecting the survey results and submitting them for evaluation

through Oxmetrics. These methods for evaluation eliminated calculation errors but were not preventative to data entry errors. Each item submitted by hand was evaluated twice for accurate submissions. In addition, each survey question was already predestined to be related to a specific research question. Based on the analysis and their interpretations, conclusions were drawn and recommendations given.

According to Creswell (1994), quantitative data analysis must focus on examining a problem based on testing a theory and analyzing it using statistical techniques. In order to investigate the hypothesized relationships in this study, the researcher employed statistical techniques using General-to-Specific cross-sectional multiple regression. All measurements were at 5% level of significance. To avoid the impact caused by other variables that are absent from this research, reference was made to prior research of Davidson (2004) who held the view that investigating the relationship between fiscal discipline and job creation could be done by assessing individual independent variables on job creation.

### **3.32 Ethical Consideration**

Ethical consideration is important in academic research. According to Kumar (2011), ethical consideration relates to how the researcher collects data from various stakeholders involved in the research. These stakeholders included the research participants, the researcher and the institutions. Ethical research considerations such as seeking consent, collecting sensitive information, maintaining confidentiality, avoiding bias, avoiding incorrect reportage and the proper use of research information were fully observed in the course of this research. The researcher observed the highest form of ethical standards. Again, plagiarism was avoided whilst all materials used for this research were appropriately acknowledged.

Finally, the researcher secured a written letter from the Nobel International Business School to undertake this research. This letter was attached to all the questionnaires and indicated the purpose of the study and gave assurance to respondents regarding the nature of the study and the fact that respondents would be assured of confidentiality and anonymity.

Further quality assurances observed in the course of the study were:

1. Ensuring the correctness and completeness of questionnaires administered
2. Maintaining quality and accuracy of data capturing and analysis; and
3. Ensuring that the originality of data captured and collected.

### **3.33 Chapter Summary**

The chapter has shed light on the appropriate methodology used for the study. It provided justification for the use of a deductive, quantitative approach as well as primary and secondary data sources for the study. It described in some detail the instrumentation used, the sampling approach used to collect primary data and description of the secondary data. In the primary data analysis, responses were encoded, edited and analyzed with Oxmetrics Version 7 whilst the secondary data was analyzed using Eviews Version 9.

## CHAPTER FOUR

### DATA ANALYSIS AND RESULTS

#### 4.1 Introduction

This chapter deals with the empirical findings of the impact of fiscal discipline on job creation in Ghana. The study focused mainly on key strategies for creating jobs for the teeming youth in Ghana who are mostly unemployed. The study was designed as quantitative in which General-to-Specific Modeling (GETS) was used to analyze the primary data. Autoregressive Distributed Lag (ARDL) was also used to analyze the secondary data. The data analysis began with the analysis of the constructs using descriptive statistics in which mean, mode, median and standard deviation were used to support the quantitative analysis. Inferences were drawn based on the analysis. This is followed by discussion of results in relation to the research objectives, research hypothesis and the empirical literature. Out of the 450 respondents who participated in the survey, 375 representing 83.33% submitted their responses for analysis. The response rate was high.

**Table 4.1: Questionnaire Survey**

<b>Survey Responses</b>	<b>Respondents</b>
Questionnaires sent out	450
Questionnaires received back	375
Unutilized questionnaires	75
<b>Response Rate (%)</b>	<b>83.33%</b>

**Source: Author, 2020**

**Table 4.2 Respondents' Demographic and Socio-Economic Characteristics**

#### Gender Distribution

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	235	62.700	62.700	62.700
Female	140	37.300	37.300	100.0
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>100.0</b>	

**Source: Author, 2020**

Figure 4.2 shows the gender characteristics of the respondents. The male and female distribution of the respondents constituted 63% and 37% respectively. Thus the males were more than their counterpart females.

**Table 4.3 Age Distribution**

<b>Age Distribution</b>				
	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
31-35	186	49.600	49.600	49.600
36-40	96	25.600	25.600	75.200
41-45	55	14.700	14.700	89.900
46 upwards	38	10.100	10.100	100.0
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>100.0</b>	

**Source: Author, 2020**

#### **4.2 Educational Background**

The results of the study indicated that 17.1% of the respondents have received a university undergraduate education, 64% had a master’s degree, and 6.9% had doctorate degree whilst 12% are Higher National Diploma graduates. This is presented in the table 4.4.

**Table 4.4 Educational Background of Respondents**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Higher National Diploma	45	12.000	12.000	12.00
Bachelor’s Degree	64	17.100	17.100	18.900
Master’s Degree	240	64.00	64.00	36.00
Doctorate Degree	26	6.900	6.900	<b>100</b>
<b>Total</b>	<b>375</b>	<b>100</b>	<b>100</b>	

**Source: Author, 2020**

### 4.3 Position held in the Organization

Table 4.5 depicts the total outcome of the survey with respect to the departments of respondents. In terms of positions, the vast majority of respondents were economists, tax analysts, CEO of Chinese Companies in Ghana. Accordingly, the results indicated that public servant had 21.3%, 23% came from the Ghana Revenue Authority as Tax analysts, Chinese CEOs represented 11.4%, Economists recorded 37%, 11% came from MOFEP, as managers and analysts, Ministry of Labour and Employment recorded 5% as officers and Labour Exports represented 3%.

**Table 4.5: Position held at the Organization**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Accountant	6	1.600	1.600
Accounting Assistant	1	.300	1.900
Administrative Manager	1	.300	2.100
Administrative officer	1	.300	2.400
Agronomist	1	.300	2.700
Agronomist Ministry of Agriculture	4	1.100	3.700
Analyst GIPC	7	1.900	5.600
Analyst MOFEP	14	3.700	9.300
Architect	2	.500	9.900
Assistant Supervisor	2	.500	10.400
Banker	10	2.700	13.100
CEO	23	6.100	19.200
CEO PEF	2	.500	19.700
CFO	2	.500	20.300
Chief Economist	1	.300	20.500
Chief Economist PEF	2	.500	21.100
Chinese CEO	1	.300	21.300

Civil Engineer	3	.800	22.100
Construction Site supervisor	1	.300	22.400
Construction Analyst	2	.500	22.900
Construction Manager	7	1.900	24.800
Construction Site supervisor	1	.300	25.100
Construction Supervisor	2	.500	25.600
Consultant	5	1.300	26.900
Consultant Public Sector	1	.300	27.200
COO	1	.300	27.500
Customer Service Officer	3	.800	28.300
Data Analyst	1	.300	28.500
Data Analyst BOG	5	1.300	29.900
Director , IFS	2	.500	30.400
Distribution Manager	8	2.100	32.500
Distribution officer	1	.300	32.800
Economic Advisor	2	.500	33.300
Economist	15	4.000	37.300
Electrical Engineer	2	.500	37.900
Engineer	3	.800	38.700
Extension Officer Ministry of Agriculture	1	.300	38.900
Extension Officer Ministry of Agriculture	3	.800	39.700
Farm Manager	3	.800	40.500
Farm Owner	1	.300	40.800
Field Officer	1	.300	41.100
Field Supervisor	1	.300	41.300

Finance Manager	3	.800	42.100
Financial Advisor	1	.300	42.400
Financial Analyst	1	.300	42.700
Financial Assistant	5	1.300	44.000
Head of Department	1	.300	44.300
HR Manager	3	.800	45.100
HR Officer	1	.300	45.300
Human Resource Manager	3	.800	46.100
Internal Auditor	2	.500	46.700
Labour Experts	6	1.600	48.300
Lecturer	5	1.300	49.600
Manager	2	.500	50.100
Manager Corporate Affairs	2	.500	50.700
Manager Women in Agriculture	1	.300	50.900
Manufacturing Manager	4	1.100	52.000
Marketing Manager	2	.500	52.500
Marketing Officer	2	.500	53.100
MD	2	.500	53.600
Mining Consultant	1	.300	53.900
Mining Manager	1	.300	54.100
Mining Consultant	3	.800	54.900
Mining Engineer	2	.500	55.500
Mining officer	1	.300	55.700
Mining Procurement	1	.300	56.000
Mining Specialist	1	.300	56.300
Officer	1	.300	56.500
Officer Ministry of Employment & Social Welfare	1	.300	56.800

Officer PEF	7	1.900	58.700
Officer, IFS	2	.500	59.200
Officer, Ministry of Employment & Social Welfare	7	1.900	61.100
Officer, Ministry of Employment & Social Welfare	1	.300	61.330
Officer, Women in Agriculture	10	2.700	64.000
Operations Manager	3	.800	64.800
Packaging Officer	1	.300	65.100
Policy Analyst	1	.300	65.300
Procurement Officer	4	1.100	66.400
Production Manager	2	.500	66.900
Project Assistant	2	.500	67.500
Project Coordinator	1	.300	67.700
Project Manager	7	1.900	69.600
Project officer	3	.800	70.400
Project Supervisor	4	1.100	71.500
Public Servant	27	7.200	78.700
Quality Control Manager	1	.300	78.900
Quantity Surveyor	1	.300	79.200
Real Estate Consultant	2	.500	79.700
Research Analyst, BOG	2	.500	80.300
Researcher	2	.500	80.800

Retail Manager	1	.300	81.100
Retail Officer	1	.300	81.300
Retailer	10	2.70	84.000
Sales Executives	5	1.300	85.300
Sales Manager	15	4.000	89.300
Sales Officer	1	.300	89.600
Senior Economist	7	1.900	91.500
Senior Investment Officer	3	.800	92.300
Staff, IFS	1	.300	92.500
Supervisor	2	.500	93.100
Tax Analyst	3	.800	93.900
Tax Officer GRA	8	2.100	96.000
Technical Director	2	.500	96.500
Trade Policy Officer	3	.800	97.300
Trade Policy Officer MOT	8	2.100	99.500
Trade Policy Officer, GIPC	2	.500	100.000
<b>Total</b>	<b>375</b>	<b>100</b>	

**Source: Author, 2020**

#### **4.4 Number of years of Employment**

On number of years of employment, 55% indicated that they have worked for five years whilst the remaining 45.1 mentioned they have worked in their organizations for ten years. This implies that the respondents have worked with their respective organizations and therefore had sufficient knowledge on the research topic.

**Table 4.6: Number of years of Employment**

Number of years				
	Frequency	Percent	Valid Percent	Cumulative Percent
5years	206	55.00	55.00	55.00
10 years	169	45.00	45.00	100.0
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>100.0</b>	

Source: Author, 2020

#### 4.5: In which way(s) do(es) Fiscal Discipline influence Job Creation?

With respect to how fiscal discipline influences job creation, 66.9% mentioned that fiscal discipline affect job creation through reduction in government spending, 32.8 indicated that fiscal discipline influences job creation when there are tax incentives whilst 0.3% represented other ways in which the two variables can interact to bring about job creation.

**Table 4.7: In which way(s) do(es) Fiscal Discipline Influence Job Creation?**

	Frequency	Percent	Valid Percent	Cumulative Percent
Spending cut	251	66.900	66.900	66.900
Tax Incentive	123	32.800	32.800	99.700
Others	1	.0300	0.300	100.000
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>100.0</b>	

Source: Author, 2020

#### 4.6 Descriptive Statistics

The descriptive statistics presented below explained the various independent variables of fiscal discipline. A number of fiscal disciplines were tested against job creation. From the results, medium term framework budget reporting recorded the highest mean value of 4.66 and standard deviation of 0.50. Government expenditure during election needs mention. It is almost becoming

a fashion that government overspends during election period and that has an impact on job creation. It had a mean value of 4.4 with a standard deviation of 0.87. High borrowings and IMF economic policy prescriptions have had an impact on job creation in Ghana. Weak procurement processes and local content also recorded high mean values and standard deviations as presented in Table 4.8 below:

**Table 4.8 Descriptive Statistics**

<b>Variable</b>	<b>Obs</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
Constraints on Government Spending	375	4.080	0.938	1	5
Budgetary constraints on budgets	375	4.080	0.719	3	5
Medium-term budget framework	375	4.661	0.501	3	5
Government overspends its budget	375	3.349	0.755	1	5
Supplementary budget	375	4.160	0.814	2	5
Budget deficit	375	4.197	0.692	1	5
IMF Fiscal rules	375	3.925	1.018	1	5
Budget Reconciliation	375	3.602	1.013	1	5
Capital Expenditure	375	3.757	0.949	1	5
Budget Monitoring	375	3.850	1.056	1	5
Government spending during elections	375	4.450	0.872	2	5
Government transfers	375	3.448	0.866	2	5
Fiscal Council	375	3.933	0.941	1	5
Weak Monitoring of budget	375	3.941	0.914	1	5
Government complies with the procedures for budget approval	375	3.629	0.897	1	5
Transfers not coordinated	375	4.176	0.814	2	5
Poor fiscal governance framework	375	4.085	2.806	1	5
Common Pool Problem	375	4.648	0.619	1	5
Poor Tax revenue mobilization	375	3.581	0.885	2	5
High debt	375	4.312	0.012	2	5
High Borrowings	375	4.314	0.604	2	5
Weak Procurement Processes	375	4.360	2.712	1	5
Lack of political commitment	375	3.349	1.048	1	5
Enabling Environment	375	1.866	0.903	1	4
Tax incentives	375	2.682	1.413	1	5
Government funding	375	2.472	1.189	1	5

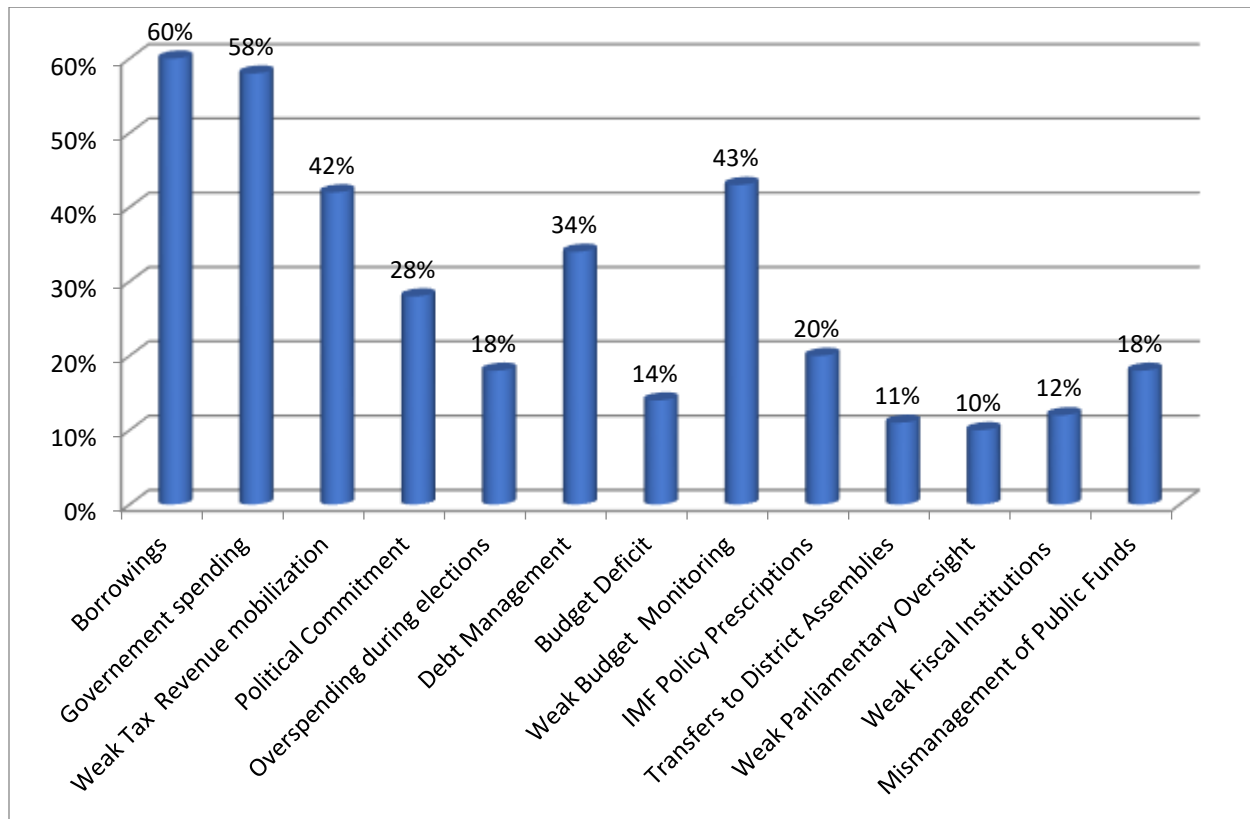
Infrastructure	375	3.250	1.131	1	5
One District One Factory	375	2.010	1.249	1	5
Youth in Agriculture	375	4.215	1.092	1	5
Access to Market	375	2.858	1.451	1	5
Government has created more jobs for the youth	375	1.930	0.770	1	4
Industrialization policy	375	2.850	1.153	1	5
Government supports Private sector	375	3.376	1.123	1	5
Business Promotion	375	4.314	0.771	1	5
Establishment of MCN companies	375	2.690	1.123	1	5
Capital injection	375	3.216	0.980	1	5
Technology Transfer	375	3.810	1.249	1	5
Ghana Beyond Aid	375	3.448	1.220	1	5
Home Grown Policy	375	3.850	1.134	1	5
Local Content	375	4.202	0.908	1	5
Training & Development	375	3.733	1.150	1	5
Agricultural Modification	375	3.826	1.007	1	5
Digitization and formalization of the economy	375	3.752	1.059	1	5
Credit RB	375	4.002	1.107	1	5
Restructuring Educational System	375	3.900	0.949	2	5
Retooling Manufacturing sector	375	3.653	1.226	1	5

**Source: Author, 2020**

#### **4.8 Challenges facing the Government in maintaining fiscal discipline**

A number of challenges confront the government in maintaining fiscal discipline in order to create jobs in the economy. The first problem identified by the study was high government borrowings which had 60% followed by government spending which recorded 58%. Excessive recurrent government expenditure has a telling impact on job creation. Due to high borrowings, a lot of debt is created and more tax revenue is devoted to the servicing of the debt. Weak tax revenue mobilizations as well as weak budget monitoring are also critical challenges facing the government recording 42% and 43% respectively. As a result of weak budget monitoring, some Ministries, Departments, Agencies and the District Assemblies either overspend or underspend their budget with its attendant impact on mismanagement of public funds.

**Figure 4.4: Challenges facing the Government in maintaining fiscal discipline**



**Source: Author, 2020**

## **4.9 EMPIRICAL RESULTS**

The empirical reliability tests were conducted after data validity had been determined in the course of the preliminary analysis.

### **4.9.1 Normality Test**

The causal model estimation techniques require data which follow a multivariate normal distribution (Hulland et al., 1996). Shapiro-Wilk and the Kolmogorov-Smirnov are the most frequently used tests for normality in statistics (Ghasemi & Zahediasl, 2012). Pallant (2007) indicated that normality can be examined through the use of skewness and kurtosis. Kolmogorov-Smirnov tests and graphical analysis such as histograms and box plots are also used

to test normality. The researcher made use of Kolmogorov-Smirnov and Shapiro Tests to determine the normality of the data.

**Table 4.9 Normality Test**

Tests of Normality						
	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Job Creation	.265	17	.245	.765	17	.702
Fiscal Institutions	.319	6	.557	.683	6	.404
Government Spending	.300	20	.518	.807	20	.109
Government Borrowing	.250	16	.858	.829	16	.672
Government Revenue	.296	7	.063	.840	7	.995
Public Debt	.233	10	.131	.824	10	.028
Structural	.282	22	.783	.841	22	.236
Economic Transformation	.288	37	.412	.756	37	.3210
Budget Deficit	.272	38	.231	.765	38	.214
a. Lilliefors Significance Correction						

**Source: Author, 2020**

**H<sub>0</sub>: Data is Normally Distributed**

**H<sub>1</sub>: Data is not Normally Distributed**

From the analysis above, the significance is known to be higher than 0.05, H<sub>0</sub> is not rejected in both analysis, therefore it is concluded that the data distribution is normal.

#### **4.10: Cronbach's Alpha Coefficient Results**

The researcher computed the Cronbach alpha coefficients to determine the internal consistency of the constructs. From Table 4.10 all the coefficients showed that the instrument was better in measuring the constructs (Sekaran, 2003).

**Table 4.10: Cronbach's Alpha Coefficient Results**

<b>Construct</b>	<b>Alpha coefficient</b>
Job Creation	0.821
Government spending	0.740
Government borrowing	0.752
Structural economic transformation	0.832
Fiscal Institutions	0.871
Public Debt	0.853
Budget Deficit	0.733
Revenue Mobilization	0.761

**Source: Author, 2020**

**Table 4.11: Harman’s Single Factor Test**

<b>Total Variance Explained</b>					
<b>Factor</b>			<b>Extraction Sums of Squared Loadings</b>		
	<b>% of Variance</b>	<b>Cumulative %</b>	<b>Total</b>	<b>% of Variance</b>	<b>Cumulative %</b>
Job Creation	17.333	17.333	.458	5.721	5.721
Structural Economic Transformation	14.464	31.797			
Government Revenue	13.706	45.504			
Public Debt	13.430	58.933			
Government spending	12.494	71.428			
Budget Deficit	10.623	82.051			
Fiscal Institutions	9.265	91.316			
Government Borrowings	8.684	100.000			

**Source: Author, 2020**

To establish the presence of common method variance or bias, Harman’s Single factor test was conducted to find out whether one single variable accounts for 50% or more. From Table 4.11 above, it was clear that no single variable accounted for 50% of the variance. The total variance was 45.8%. This indicated that there were no prejudiced responses that affected the study.

#### **4.12 Multiple Regression Results from Primary Data Analysis**

**Table 4.12 Fiscal Discipline and Job Creation (General-to-Specific Analysis)**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
-----------------	--------------------	-------------------	--------------------	--------------

Fiscal Institutions	0.120	0.097	1.238	0.216
Government Spending	0.803	0.302	2.658	0.008
Government Borrowing	-0.034	0.017	-2.025	0.043
Public Debt	-0.656	0.308	-2.131	0.033
Structural				
Economic Transformation	0.111	0.043	2.545	0.011
Budget Deficit	0.083	0.049	1.703	0.089

R<sup>2</sup> 0.739  
Adj. R<sup>2</sup> 0.691  
F-Test 15.600

Normality Test 25.663 0.000\*\*  
Hetero Test: 5.577 0.000\*\*

**Source: Author, 2020**

**Table 4.13 Fiscal Discipline and Job Creation (Specific Analysis)**

	Coefficient	Std. Error	t-value	Prob
Constant	-0.350	1.021	-0.343	0.730
Government spending	0.000	0.082	3.010	0.003
Government Borrowing	-0.218	0.064	-3.390	0.000
Public Debt	-0.350	0.119	-2.940	0.003
Structural Economic Transformation	0.394	0.743	5.310	0.000
R <sup>2</sup>	0.234			
Adj. R <sup>2</sup>	0.226			
F-Test	16.700			
Normality test:	25.500	0.000**		
Hetero test:	5.570	0.000**		

**Source: Author, 2020**

The multiple regression results indicated that out of seven independent variables that were tested against job creation, only government spending, government borrowing, public debt and structural economic transformation were statistically significant at 5%. Government spending recorded a t-value of 2.65 against a p-value of 0.0082 whilst government borrowing recorded a t-

value of -2.02 with a p-value of 0.0435. Public debt had a t-value of -2.13 with its p-value being 0.0337.

Lastly, structural economic transformation recorded a t-value of 2.5 against a p-value of 0.0113. Thus, budget deficit, fiscal institutions and government revenue that were not statistically significant were deleted from the model in order for the rest of the independent variables to be regressed against job creation. It was observed that government borrowing and public debt have negative relationships with job creation. In other words, when government borrowing and public debt go up fiscal indiscipline goes up whilst job creation declines.

From the second stage of the analysis, which is the specific analysis, four variables namely government spending, public debt, budget deficit and structural economic transformation improved on their level of significance. Government spending recorded a t-value of 3.01 against a p-value of 0.0028. Government borrowing had a t-value of -3.39 with a p-value of 0.000 whilst public debt recorded a t-value of -2.94 with a p-value of 0.0035 suggesting a negative relationship between public debt and job creation. Structural economic transformation reported a t-value of 5.31 and a p-value of 0.0000. This means there is a positive relationship between structural economic transformation and job creation.

#### **4.13 SPECIFIC ANALYSIS**

##### **1. Government Spending and Job Creation**

Tables 4.14 below showed the relationship between government spending and job creation. It was found that the relationship between government spending and job creation is very strong with the coefficients of determination and correlation recording  $R^2=74.8\%$ , Adjusted  $R^2 =72.2\%$

respectively. The  $R^2$  is the coefficient of determination and it indicates the total variation in government spending as explained by job creation. However, weak budget monitoring tends to negatively affect government spending and job creation. A possible reason for this is that the government of Ghana has a weak parliamentary oversight that approves annual budget, but does not track the budget implementation process and how the Ministries and Departments as well as the District Assemblies spend their monies. From Table 4.14 above, government capital expenditure recorded t-value of -2.42 with p-value of 0.000. Government transfers recorded a t-value of 2.6 and 0.009 respectively. Similarly, weak budget monitoring recorded t-value of 2.12 and p-value of 0.0278 whilst recurrent expenditure and supplementary budget were not significant. In the second stage of analysis, these variables were deleted from the model to produce specific variables that actually affect government spending. In Table 4.14 below, capital expenditure worsened, recording a t-value of -4.83 with a p-value of 0.000, implying that there is a negative relationship between capital expenditure and job creation. Also, the t and p values for government transfers improved to 4.7 and 0.000 whilst weak budget monitoring deteriorated to -7.91 for the t-value and 0.000 respectively for the p-value.

**Table 4.14: Government Spending and Job Creation (General-to-Specific Analysis)**

	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-value</b>	<b>prob</b>
Constant	2.034	0.554	3.672	0.002
Recurrent Expenditure	0.297	0.008	1.700	0.000
Capital Expenditure	-0.095	0.039	-2.420	0.016
Government Transfers	0.026	0.101	2.600	0.009
Weak Budget	0.070	0.033	2.120	0.027

monitoring				
Supplementary Budget		0.350	0.072	0.830
				0.000
R <sup>2</sup>	0.748			
Adj.R <sup>2</sup>	0.722			
F Test	14.200	0.000**		
Normality test:	34.046	0.000**		
Hetero test:	5.539	0.000**		

**Source: Author, 2020**

**Table 4.15: Government Spending and Job Creation (Specific Analysis)**

	Coefficient	Std Error	t-value	prob
Capital Expenditure	0.350	0.072	-4.830	0.000
Government Transfers	0.214	0.045	4.700	0.000
Weak Budget monitoring	-0.476	0.060	-7.910	0.000
R <sup>2</sup>	0.76			
Adj. R <sup>2</sup>	0.73			
Normality test:	34.107	[0.0000]**		
Hetero test:	12.424	[0.0000]**		

**Source: Author, 2020**

## 2. Structural Economic Transformation and Job Creation

Table 4.16 to 4.17 below show the association between structural transformation and job creation. It was found that the nexus between structural transformation and job creation was very strong as the level of relationship was high with scores of  $R^2 = 70\%$ , Adjusted R = 68%. The R is the coefficient of determination and it indicates the total variation in the structural transformation as explained by job creation. The analysis indicates that there is a perfect correlation between the

structural transformation and job creation as restructuring of our educational system, modernization of agriculture, digitization, and formalization of the Ghanaian economy all had positive impact on job creation. From the table 4.3, restructuring our educational system recorded a t-value of 20.9, p-value of 0.000, agricultural modernization, t-value of 23.8, p-value of 0.000, digitization and formalization of the economy recorded t-value of 25.8 against p-value of 0.000. Home grown policy recorded a t-value of 2.56 against a p-value of p-value of 0.000. Political commitment, industrialization policy as well as creating the enabling environment were not significant and therefore did not have any influence on job creation in the long run.

In the second stage of the analysis, all the independent variables were improved with restructuring educational system recording a t-value of 21.2 with p-value of 0.000. Home grown policy was found to be statistically significant with a t-value of 26.4 with a p-value of 0.021 Overall, it can be said that structural transformation has a positive impact on job creation.

#### **4.16: Modelling Structural Transformation and Job Creation (General-to-Specific Analysis)**

	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-value</b>	<b>prob</b>
Constant	0.567	0.079	7.160	0.000
Restructuring Edu System	0.176	0.008	20.900	0.000
Political commitment	-0.004	0.006	-0.702	0.483
Industrialization policy	0.008	0.006	1.331	0.184
Creating Enabling Environment	0.012	0.009	1.363	0.175
Home Grown policy	0.160	0.065	2.562	0.000
Modernization of agriculture	0.192	0.008	23.800	0.000
Digitization and formalization of the economy	0.163	0.006	25.800	0.000
R <sup>2</sup>	0.700			
Adj. R <sup>2</sup>	0.680			
F Test	14.360			
Normality test:	57.780	0.000**		
Hetero test:	7.2017			

Source: Author, 2020

**Table 4.17: Structural Transformation and job creation (Specific Analysis)**

	Coefficient	Std. Error	t-value	prob
Constant	0.524	0.037	13.9	0.000
Restructuring Educational System	0.176	0.008	21.2	0.000
Modernization of agriculture	0.191	0.007	240	0.000
Home Grown Policy	0.163	0.006	26.7	0.021
R <sup>2</sup>	0.770			
Adj. R <sup>2</sup>	0.761			
F Test	5.370			
Normality test:	64.050	0.000**		
Hetero test:	19.000	0.000**		

Source: Author, 2020

#### 4.18 Public Debt and Job Creation (General-to-specific Analysis)

Tables 4.18 and 4.19 respectively demonstrated the relationship between public debt and job creation. Ghana having a sinking fund to pay its debts was highly significant with a t-value of 7.87 with p-value of 0.000. This was improved to a t-value of 8.39 and p-value of 0.000 in the specific analysis in Table 4.19 below. However, Ghana having a robust debt management strategy was not significant, whilst debt sustainability and lack of political commitment were equally not significant. The relationship between public debt and job creation was weak with the coefficients of determination and correlation recording R=31%, R<sup>2</sup> =30% respectively. The R<sup>2</sup> is the coefficient of determination and it indicates the total variation in public debt as explained by job creation. This may be due to the nature of the Ghanaian economy at this point in time where public debt is increasing at a faster rate.

**Table 4.18 Modelling of Public Debt and job creation**

	Coefficient	Std. Error	t-value	prob
Constant	2.851	0.691	4.130	0.000

Ghana has a robust debt management strategy	0.020	0.069	0.295	0.768
Ghana has a sinking fund to pay its debts	0.433	0.055	7.870	0.000
Debt Sustainability	-0.043	0.077	-0.564	0.573
Lack of Political Commitment	-0.063	0.040	-1.580	0.113

R <sup>2</sup>	0.337	
Adj. R <sup>2</sup>	0.310	
Normality test	149.950	0.0000**
Hetero test:	23.123	0.000**
F Test	15.400	12.210**

**Table 4.19 Modelling Public Debt by (Specific Analysis)**

	<b>Coefficient</b>	<b>Std. Error</b>	<b>T-value</b>	<b>Prob.</b>
Constant	1.020	0.206	4.940	0.000
Ghana has a sinking fund to pay its debts	0.404	0.048	8.390	0.000
R <sup>2</sup>	0.311			
Adj. R <sup>2</sup>	0.307			
F Test	2.372			
Normality test:	129.23	0.000**		
Hetero test:	2.238	0.000**		

**Source: Author, 2020**

#### **4.20 Government borrowing and Job Creation**

Table 4.20 and 4.21 examine the relationship between government borrowing and job creation.

The results indicated that government borrowing for economic projects especially those with higher rates of return was significant as against social projects. One of the major considerations is that Ghana has borrowed from a diversified source and has left the domestic market. Also, most recent borrowings have come from the Eurobond market and not from the Institutional Development Institutions such as the IMF and the World Bank. Also, borrowings from the

external sources come with foreign exchange risks which would have to be militated against. Results from table 4.18 indicate that borrowing for economic projects with higher returns was significant with a t-value of 6.51 against a p-value of 0.0042.

#### 4.20 Modelling Borrowing and Job Creation by (General to Specific Analysis)

	Coefficient	Std. Error	t-value	prob
Constant	0.138	0.179	0.767	0.44
Borrowing for Economic Projects	0.848	0.130	6.510	0.004
Borrowing for social projects	-0.036	0.013	-0.258	0.797
Borrowing from other sources	0.033	0.021	1.551	0.120
Foreign Exchange Risk	-0.306	0.017	-17.900	0.074
Borrowing from Eurobond Market	0.147	0.033	4.450	0.031
R2	0.642			
Adj. R <sup>2</sup>	0.611			
F Test	4.872			
Normality test	43.980			
Hetero test	7.811			

Source: Author, 2020

**Table 4.21 Modelling Borrowing and job creation by Specific Analysis**

	Coefficient	Std. Error	t-value	prob
Constant	0.418	0.178	2.321	0.243
Borrowing for Economic projects	0.856	0.130	6.590	0.002
Borrowing from Eurobond Market	0.205	0.023	9.050	0.000
Foreign Exchange Risk	-0.316	0.016	-19.200	0.000
R <sup>2</sup>	0.640			

Adj. R <sup>2</sup>	0.620
F-Test	3.45
Normality test:	353.98
Hetero test:	2.849

---

#### 4.22 MODEL SUMMARY

Presented below in table 4.22 is the model summary from the primary analysis. From the analysis, there is a strong relationship between government spending and job creation as the coefficient of correlation was 72%. In addition, two of the variables, namely capital expenditure and weak budget monitoring are negatively related with job creation. This suggests that perhaps the government might have not allocated sufficient capital budget to support infrastructural efforts to create more jobs. In model two, three variables were statistically significant. Home Grown Policy recorded the highest value of 26.7. This implies that as far as structural economic transformation is concerned, the most potent strategy is how to develop a home grown policy for Ghana to wean off itself from its Development Partners to create more jobs for Ghanaians. For model 3, the obvious variable that needs mention is the existence of a sinking fund that facilitates the payment of Ghana's external loans. The model however has a low level of relationship as the coefficient of determination was 30%. Lastly, in model 4, government borrowing and its impact on job creation was highlighted. It was abundantly clear from the analysis that Ghana carries foreign exchange risk when borrowing from the external source. Also, borrowings for economic projects with high returns were significant as against borrowing for social projects.

**Table 4.22: Model Summary**

Variable	Model 1	Model 2	Model 3	Model 4
----------	---------	---------	---------	---------

	T-value	P-Value	T-value	P-Value	T-value	P-Value	T-value	P-Value
Capital Expenditure	-4.83	0.003						
Government Transfers	4.7	0.009						
Weak budget Monitoring	-7.91	0.000						
Intercept	2.03							
R	74							
Adj. R <sup>2</sup>	72							
F	14.							
Hetero test	12.424	0.000**						
Normality test	34.107	0.000**						
Restructuring Educational system			21.2	0.000				
Modernization of Agriculture			24	0.000				
Home Grown Policy			26.7	0.021				
Intercept				13.9				
R				0.96				
Adj. R <sup>2</sup>				0.93				
F -Test				5.369				
Normality test:				64.05				
Hetero test:				19.05				
Ghana Has a sinking fund					8.39	0.000		
Intercept						4.94		
R						0.31		
Adj. R <sup>2</sup>						0.30		
F -Test					2.4			

Normality test:					129.23	0.0000**		
Hetero test:					2.23	0.0000**		
Borrowing for economic projects							6.59	0.002
Borrowing from diversified source <sup>a</sup>							9.05	0.000
Foreign Exchange Risks							19.2	0.000
Intercept								2.3
R								64
Adj. R <sup>2</sup>								62
F-Test								3.45
Normality test							353.98	[0.0000]**
Hetero test							2.85	[0.0044]**

**Output from Oxmetrics Version 7**

## **4.23 SECONDARY DATA ANALYSIS**

### **4.5.1 Trend Analysis**

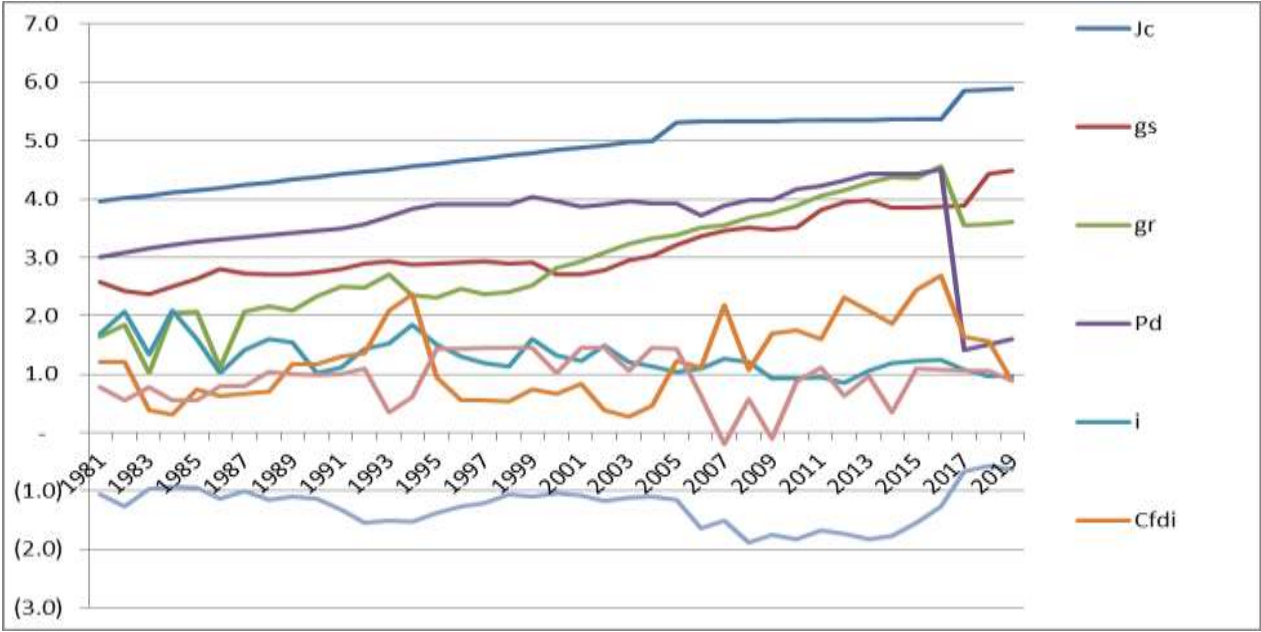
The trend analyses of the key macroeconomic variables indicated that economic performance of Ghana has not been consistent but has a mixed trajectory. As presented in figure 4.5 government spending has increased by an average of 36%. In terms of budget deficit, Ghana has consistently recorded high rates whilst borrowing has been on the ascendency since 2012. The results are that Ghana is characterized by low rates of job creation against high budget deficits and borrowing levels. Again, both domestic and external debts are rising steadily with its resultant effect on inflation, macroeconomic stability and job creation. Budget deficit widened to 11.5% in 2010 and was reduced to 5.5% by 2016.

A critical analysis of the inflation trend between 1981 and 1984, inflation went up to an average rate of 77.75% before coming down to 39.7% in 1985. It maintained some stability until in 1994 when it went up to 70.8%. Since then, inflation has been showing a downward trend and even recorded a single digit figure from 2009 to 2012. Inflation has been hovering around 15% between 2013 and 2017 with the year 2018 recording inflation rate of 10.5% as at April 2018 and 9.5% by December 2019. Despite the improvement in the inflation, the Ghanaian economy has not registered any significant growth in job creation.

As a result of the implementation of a sound fiscal policy by the government to maintain fiscal discipline, the economy grew by 15% by 2011 partly as a result of Ghana's foray into commercial oil production. Ghana's gross international reserves were 3.2 months of import cover. Ghana's debt went up to 48% in 2012 and ballooned to 73.42% of GDP in 2016. Gross external debt to GDP was 153 in 2000 and this improved to 50.24 by 2016 whilst Gross Domestic Debt improved from 29 in 2000 to 22.9 in 2016 respectively. Overall, one can infer from the trend analysis that Ghana has registered a low rate of job creation over past three decades; excessive government spending and a rising public debt have been the bane of the

economy. Chinese Foreign Direct Investments went up from 6% in 1981 to 14% in 2019. Most of these investments went into infrastructural development, communication, manufacturing and general trading and agriculture. These have created jobs for Ghanaians and thus have contributed to poverty alleviation. Also, the economy has not been properly structurally transformed to play a catalytic role in job creation whilst government’s revenue as a percentage of Gross Domestic Product is 14%. This figure is woefully inadequate compared with other countries that mobilize tax revenue of about 28%. This gap creates pressure on the government to borrow as has been presented in figure 4.5 below. JC refers to Job creation, GS refers to government spending, GR denotes government revenue, PD means public debt, I refers to the rate of inflation whilst CFDI denotes Chinese Foreign direct Investments. These variables have been shown in Figure 4.5.

**Figure 4.5 Trend Analysis of Key economic indicators of Ghana (1981-2019)**



Source: Author, 2020

**4.14.2 Descriptive Statistics**

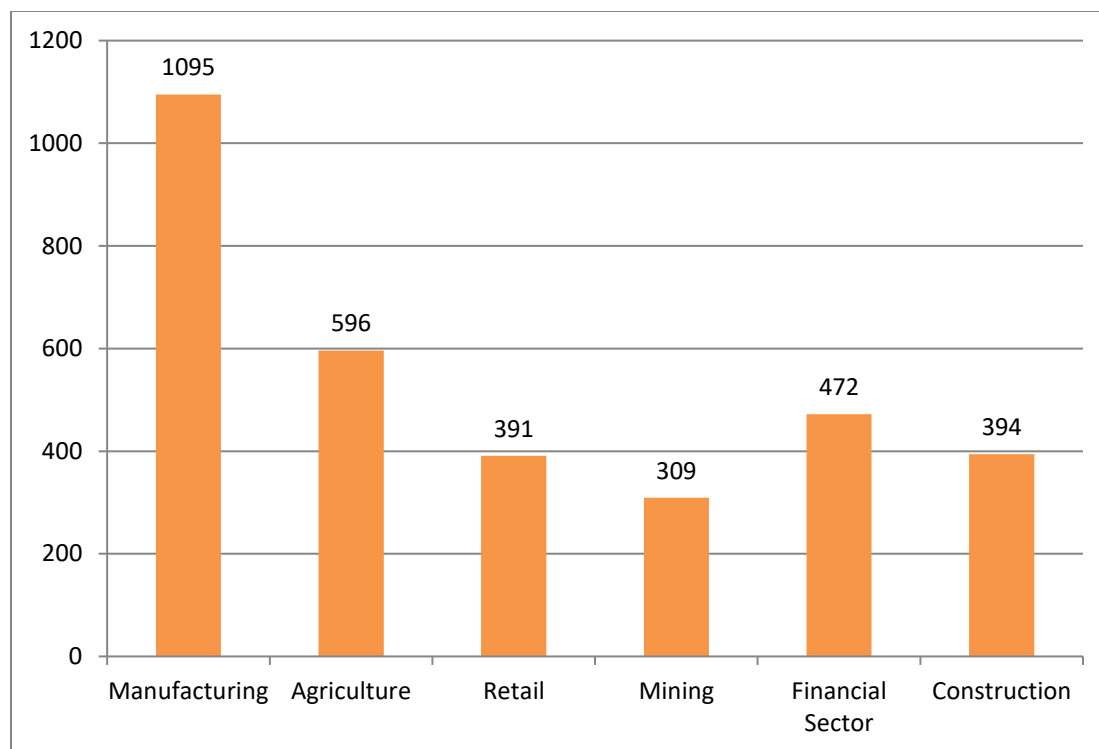
Table 4.23 provides a summary of the descriptive statistics of variables. The highest mean value came from job creation with 4.4 against a standard deviation of 0.8. Public debt was ranked second with a mean value of 3.8 whilst the least mean value was recorded by budget deficit with -1.3. This implies government budget deficit was growing at a reducing pace in relation to the rate of growth of the economy. The manufacturing sector which is used as a proxy for measuring economic transformation recorded a mean value of 1.2 against a standard deviation of 0.9. The descriptive analysis showed that even though job creation was relatively high in some sectors of the economy, it has been generally low, has not yielded positive results and targets have not been met. However, due to the size of the government budget deficit, government borrowing and government spending, few resources are left for job creation in the Ghanaian economy.

**Table 4.23 Descriptive Statistics**

	<b>LnJCL</b>	<b>LnMANU</b>	<b>LnGR</b>	<b>LnGS</b>	<b>LnBD</b>	<b>LnPD</b>
Mean	4.461	1.210	3.011	3.127	-1.318	3.832
Median	4.424	1.057	2.931	2.944	-1.3	3.903
Maximum	6.000	4.210	4.700	4.491	-0.44	5.000
Minimum	2.400	0.140	1.115	2.100	-2	2.000
Std. Dev.	0.801	0.924	0.865	0.602	0.354	0.655
Skewness	-0.396	1.266	0.102	0.607	0.339	-0.828
Kurtosis	3.693	4.492	2.303	2.529	2.984	4.232

**Source: Author, 2020**

**Figure 4.6: Jobs Created by the Chinese in Ghana**



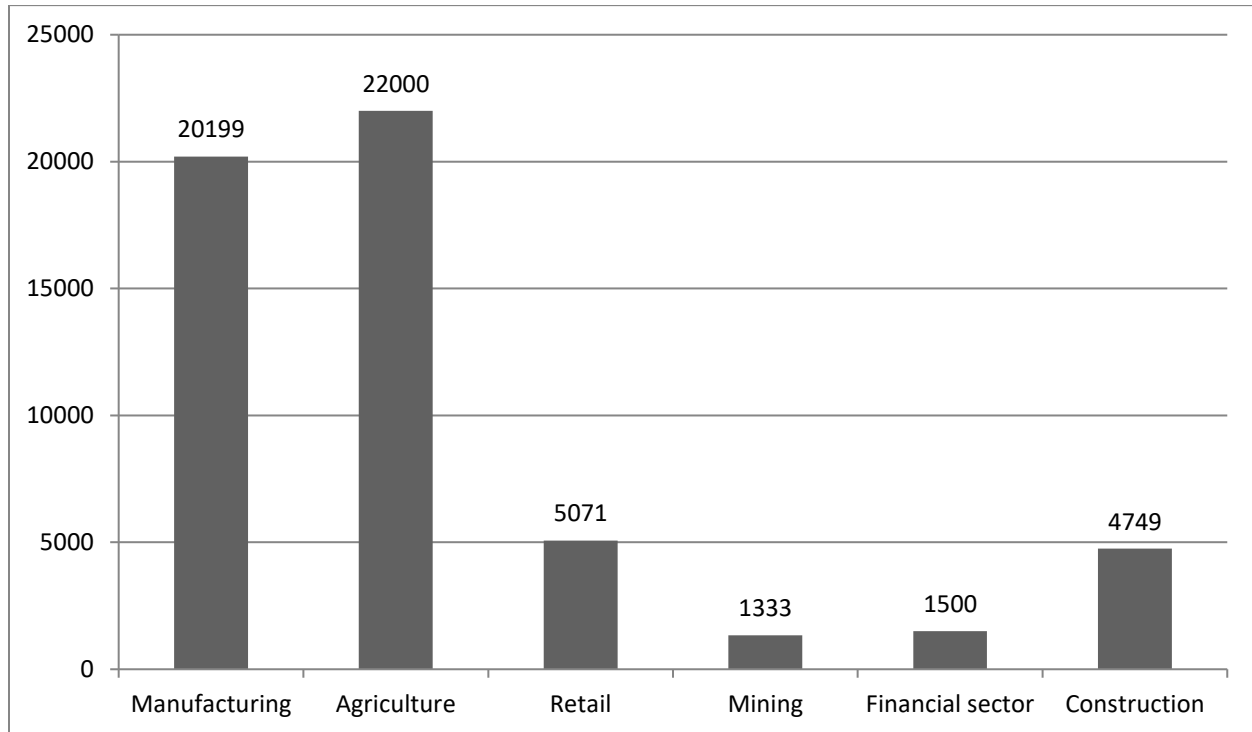
**Source: Source: Author, 2020**

From figure 4.6 above, it is abundantly clear that of all the jobs that have been created by the Chinese in Ghana, manufacturing sector represented the highest, recording 1,095, followed by agriculture with 596. Financial sector recorded 472, construction had 394, and retail recorded 391 whilst mining sector created 309 jobs.

#### **4.14.3 Job Creation by the Public Sector**

In terms of jobs created by the public sector, the most outstanding sector is agriculture with 22,000 jobs, followed by manufacturing 20,199 jobs created in the manufacturing sector. A job created in the construction sector during the period under review was 4,749 whilst the retail sector recorded 5,071 jobs. The mining sector contributed to the lowest jobs within the public sector as well. A possible reason was that the government of Ghana put a freeze on the mining sector for two years and prevented a lot of small mining operators.

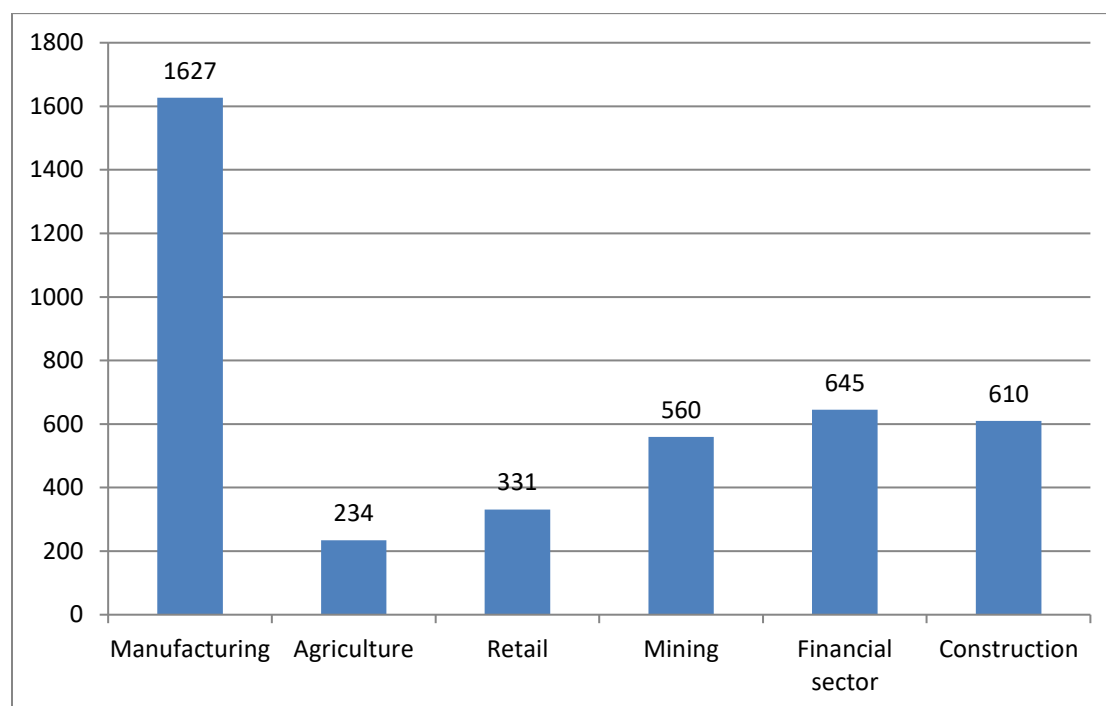
**Figure 4.7: Jobs created by the Public Sector**



**Source: Field Data, 2020**

Jobs created by the private sector were driven largely by the manufacturing sector with 1,627 jobs, financial sector follows with 645 jobs, followed by construction with 610 jobs created in the construction sector. The agricultural sector had the lowest jobs with 234 jobs being created. This is represented in figure 4.7.

**Figure 4.14.3: Jobs Created by the Private Sector**



**Source: Author, 2020**

#### 4.15 Unit Root Test

Presented in Table 4.24 below is the unit root test using ADF approach to ensure stationarity of the variables. These variables were included in the model and have been accordingly integrated at levels and order 1 to avoid spurious regression results. The data was analyzed from 1981 to 2019.

**Table 4.24: Results based on the ADF approach to Unit Root Test**

Variable	At Log Levels		After First Difference	
	Constant	Constant and Trend	Constant	Constant and Trend
LnJC	-2.302	-2.481	-7.300***	-7.19***
LnBD	-3.081	-2.957	-8.545***	-8.64***
LnMANU	-2.738	-3.102	-8.886***	-5.88***
LnGS	-0.231	-2.626	-6.657***	-6.69***
LnGR	-1.999	-4.567**	-8.998***	-8.89***

LnPD	-2.750	-5.674***	-9.730***	-9.55***
------	--------	-----------	-----------	----------

**Output from Eviews, Version 9**

\*\*\*indicates significance at 1% level while\*\* indicates significance at 5% level.

From the results in table 4.24 above, it can be inferred that all the variables were not stationary at the levels, with or without trend. To avoid the presence of homoscedasticity error in the ADF approach, Phillip-Perron test was conducted to address this problem as well as confirm the results of the ADF as follows:

**Table 4.25: Results of the Phillips-Perron (PP) Unit Root Test**

Variable	At Log Levels		After First Difference	
	Constant	Constant and Trend	Constant	Constant and Trend
LnJC	-2.342	-2.547	-7.351***	-7.244***
LnBD	-3.022**	-2.873	-8.743***	-9.784***
LnMANU	-2.768	-3.195	-9.175***	-9.149***
LnGS	-0.811	-2.456	-9.041***	-15.396***
LnGR	-1.999	-4.567***	13.895***	-13.865***
LnPD	-2.743	-5.674***	-21.993***	-21.357***

**Output from Eviews, Version 9**

\*\*\*indicates significance at 1% level while\*\* indicates significance at 5% level.

The Phillips-Perron test confirmed the results obtained under the ADF approach both at the levels and after the first difference. However, all the variables were stationary only at levels or after the first difference, suggesting that all the variables were either integrated of the order I (0) or one I(1). This provided the justification for the use of the Auto Regressive Distributed Lag Approach.

**4.26 Bounds Test for Cointegration**

To examine the long-run relationship between the dependent and independent variables, bounds test was conducted. The critical values were compared with the F-statistics value. From the

results from the short run model, F-statistics recorded a value of 3.86 which is greater than all the critical bound values, implying that there was a co-integration between fiscal discipline and job creation whilst in model 2, F-calculated of 4.18 was greater than the critical values at 1% (0.01) and 5% (0.05%) respectively under I (0) but was only significant under 5% (0.05) for I(1) bounds. This implies that the null hypothesis which indicates no relationship between fiscal discipline and job creation was rejected, suggesting that there was a long run relationship or co-integration amongst the variables. However, at 99% confidence interval or 1% level of significance and under integration order of one, there was no relationship between fiscal discipline and job creation as the critical bound value was greater than the computed F-statistics.

**Table 4.27 Bounds Test for Cointegration**

LNJC= f(LNBD,LDMANU,LNGS)			LNJC= f(LNBD,LNMANU,LNGS,LNGR,LNPD)		
F-Statistic	K		F-Statistic	K	
3.86	3		4.18	5	
Critical Value Bound			Critical Value Bound		
Significance	I(0) Bound	I(1) Bound	Significance	I(0) Bound	I(1) Bound
10%	2.21	3.25	10%	2.26	3.35
5%	2.32	3.55	5%	2.62	3.79
2.5%	2.54	3.61	2.5%	2.96	4.18
1%	2.66	3.76	1%	3.41	4.68

**Note: \*\*\* denotes significance at 1% and \*\* at 5% level of significance**

**Source: Estimated from Eviews 9.0**

#### 4.28 Long-Run Analysis

To assess the long-run impact of the relationship between fiscal discipline and job creation, an ARLD long-run model test was conducted. The results also suggested that government spending, government revenue and structural transformation are significant and affect job creation in the

long-term. However, government revenue has a negative impact on job creation, implying that low revenue mobilization by the government cannot stimulate the desired growth in job creation. The results are consistent with the research conducted by Mohanty (2012), who demonstrated an inverse relationship between government revenue and job creation. Akosah (2013) and Nkalu (2015) conducted similar studies and their findings indicated that government revenue has inverse relationship with job creation since low revenue mobilization by the government leads to higher borrowings to bridge fiscal deficit which eventually cripples an economy. The ARDL model specifications was chosen using Schwarz Bayesian Criteria (SBC) and Akaike Information Criterion (AIC) to derive the long run results as indicated in Table 4.28 below. The corresponding ARDL selected model was (2, 0, 1, 0, 1,3).

**Table 4:28 Estimated Long Run Coefficient using the ARDL Approach**

Dependent Variable: D(LNJC)  
Selected Model: ARDL (2, 0, 1, 0, 1,3)  
35 observations used for estimation from 1981 to 2019

---

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNMANU	0.366**	0.156	2.336	0.030
LNGR	-0.771**	0.346	-2.228	0.038
LNGS	0.865**	0.340	2.541	0.019
LNBD	-0.744	0.597	-1.247	0.227
LNPD	0.463	0.395	1.173	0.255
C	0.631	1.411	0.448	0.659

---

**Source: Estimated from Eviews Version 9**

\*\* indicate the rejection of the null hypothesis at 5% significance level.

#### **4.29 Estimates of the Short-run Error Correction Model**

Results from Table 4.18 below, the error correction term was presented. The ECT measures the rate at which adjustments are restored into equilibrium in the long run. Error Correction Model

(ECM) was negative and significant at one percent critical level with a coefficient estimate of -0.771. This indicated that about 77.1% of any movement or disturbance into disequilibrium was corrected per year. Since the t-statistic was also highly significant with a value of -4.12, it can also be concluded that the coefficient was significant but moves in the negative direction. The results revealed that government spending was positive and was statistically significant. This implies that if government spending goes up, job creation would equally go up.

Public debt, as measured by the ratio of debt to the Gross Domestic Product (GDP) was highly significant and had a negative t-value for the first lag. This suggested that public debt has inverse impact on job creation. In other words, anytime public debt of Ghana goes high, it tends to affect job creation in a negative way especially in the short run as the government has to utilize domestic revenue to defray its debt.

The ARDL model specification for the Error Correction Model was based on the Schwarz Bayesian Criterion and was the same as the long run model. The ARDL (2,0,1,0,1,2) estimates for the model has been depicted in Table 4.29.

#### 4.29 Estimates of the Short-run Error Correction Model

<b>Dependent Variable: LNJC</b>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
D(LNJC(-1))	0.266	0.187	1.425	0.170
D(LNJC(-2))	0.267	0.193	1.382	0.182
D(LNJC(-3))	0.574	0.202	2.843	0.010
D(LNMANU)	0.282	0.135	2.089	0.050
D(LNGR)	0.089	0.173	0.512	0.614
D(LNGS)	0.666**	0.263	2.532	0.020
D(LNBD)	0.493	0.293	1.679	0.109
D(LNPDL)	0.455	0.254	1.789	0.089
D(LNPD(-1))	-1.443**	0.519	-2.782	0.011
D(LNPD(-2))	0.411	0.205	2.008	0.059
D(LNPD(-3))	0.734***	0.239	3.061	0.006

CointEq(-1)	-0.771***	0.185	-4.169	0.000
Cointeq = JCLOG - (0.3660*MANULOG -0.7717*GRLOG + 0.8646*GS_LOG -0.7446*BDLOG + 0.4630*PDLOG + 0.6317 )				

**Source: Estimated from Eviews Version 9**

**\*\*\* and \*\* indicate the rejection of the null hypothesis at 1% percent and 5% significance levels respectively**

#### 4.30. Model Diagnostics Test Results

The diagnostics test indicated that the model did not have problems relating to serial correlation, normality, heteroscedasticity and reset test.

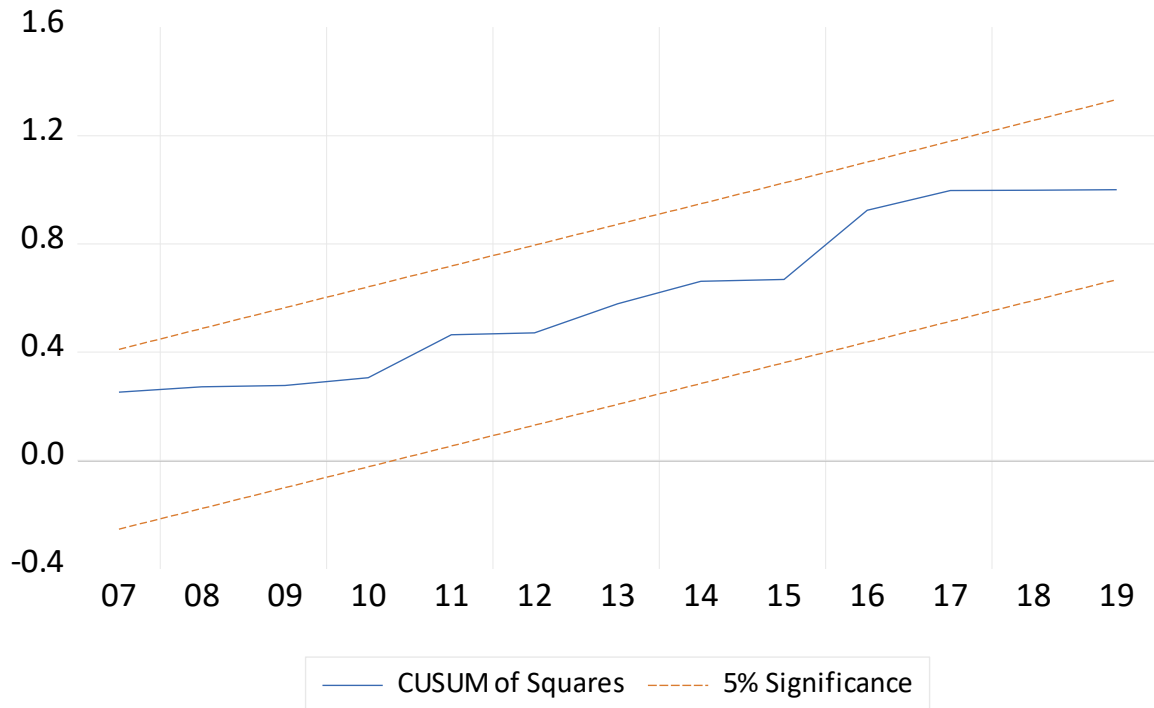
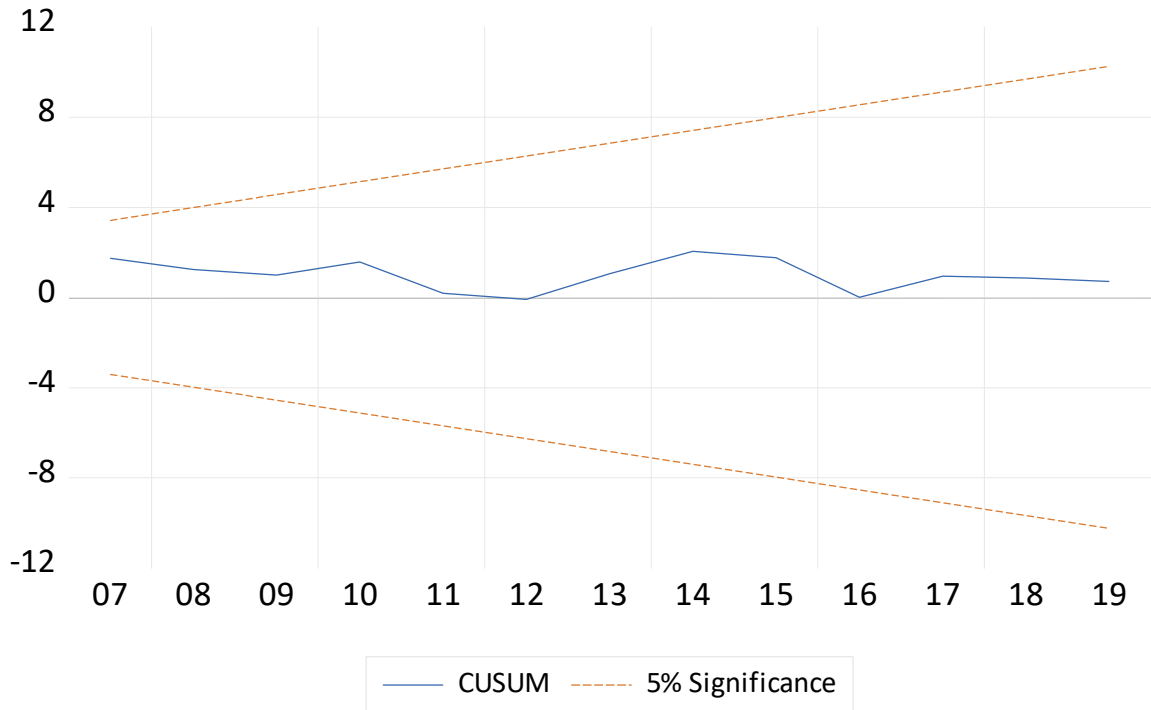
**Table 30: Diagnostics Test Results**

Statistics	F-Statistics	P-value
Serial Correlation	0.84	0.445
Normality	0.29	0.860
Functional Form	0.754	0.397
Heteroscedasticity	0.959	0.526

**Source: Estimated from Eviews Version 9**

The results from the model diagnostic test results indicated the following: Breusch-Godfrey Serial Correlation LM Test F= 0.843 (p=0.445 p>0.10), Heteroscedasticity Test using Breusch-Pagan-Godfrey F statistic = 0.959 (p = 0.526.; i.e. p > 0.10); specification test using Ramsey RESET test also yielded the following results: t statistic =0.753 (p 0.397, i.e. p > 0.10) whilst normality test recorded t-value of 0.29 and p-value of 0.86.

The results from the stability test indicated that the Breusch-Godfrey Lagrange multiplier statistics were used for testing serial correlation, Ramsey Reset test for mis-specification and stability; Jacque-Bera test for normality as well as Breusch-Pagan-Godfrey test for heteroscedasticity were not respectively significant. In the final analysis, it was amply demonstrated that the CUSUM (Cumulative Sum) and the CUSUMSQ (Cumulative Sum of Squares) which tested the stability of the models were below 5% level of significance. Pesaran et al (2001) noted that the stability of a model indicates if the variables are stable. The null hypothesis stated that the CUSUM and CUSUMSQ coefficients should remain the same both in the short and long run periods. Plotting the critical bound values below the 5% confidence level showed that the null hypothesis is not rejected because it was found within the acceptable bounds range. Also, the recursive CUSUM and CUSUMSQ residuals remain close to 0 without fluctuating outside the 5% limits, there is no sign of change in the coefficients over time. It can therefore be concluded that all the coefficients show stability. On the basis of the results, the model is considered sound for both analysis and policy implications. Presented below are the CUSUM coefficient diagrams:



#### 4.30. Granger Causality Test Results between Fiscal Discipline and Job Creation

The focus of the Granger causality test was to determine the direction of the relationship through hypothesis testing. The decision rule states that reject the null hypothesis if the computed F-value is greater than the critical F-value at 1% and 5% levels of significance.

Results from the Granger causality test indicated that there was a uni-directional causality relationship between fiscal discipline and job creation. In other words, the results of the Granger causality test showed that the null hypothesis that indicates that fiscal discipline does not cause job creation was rejected, indicating that fiscal discipline affected job creation. The key fiscal discipline variables that were statistically significant and have had impact on job creation included public debt, structural transformation, revenue mobilization and budget deficit.

**Table: 4.30 Granger-Causality Test Results**

Null Hypothesis:	Obs	F-Statistic	Prob.
MANULN does not Granger Cause JCLN JCLN does not Granger Cause MANULN	37	0.54317 2.71644	0.5862 0.0813
GRLN does not Granger Cause JCLN JCLN does not Granger Cause GRLN	37	0.88071 0.04704	0.4243 0.9541
GSLN does not Granger Cause JCLN JCLN does not Granger Cause GSLN	37	1.09725 0.47125	0.3460 0.6285
PDLN does not Granger Cause JCLN JCLN does not Granger Cause PDLN	37	0.61219 0.25730	0.5484 0.7747
BDLN does not Granger Cause JCLN JCLN does not Granger Cause BDLN	37	0.89538 0.43089	0.4184 0.6536
GRLN does not Granger Cause MANULN MANULN does not Granger Cause GRLN	37	3.50160 0.21540	0.0421** 0.8074
GSLN does not Granger Cause MANULN MANULN does not Granger Cause GSLN	37	1.46976 0.52226	0.2451 0.5981
PDLN does not Granger Cause MANULN MANULN does not Granger Cause PDLN	37	1.03898 0.23151	0.3654 0.7946

BDLN does not Granger Cause MANULN MANULN does not Granger Cause BDLN	37	1.31139 6.15594	0.2835 0.0055**
GSLN does not Granger Cause GRLN GRLN does not Granger Cause GSLN	37	2.31114 5.55322	0.1155 0.0085**
PDLN does not Granger Cause GRLN GRLN does not Granger Cause PDLN	37	7.59096 0.86799	0.0020*** 0.4294
BDLN does not Granger Cause GRLN GRLN does not Granger Cause BDLN	37	2.30771 0.18720	0.1158 0.8302
PDLN does not Granger Cause GSLN GSLN does not Granger Cause PDLN	37	0.31719 3.36414	0.7305 0.0472**
BDLN does not Granger Cause GSLN GSLN does not Granger Cause BDLN	37	0.38506 0.40068	0.6835 0.6732
BDLN does not Granger Cause PDLN PDLN does not Granger Cause BDLN	37	0.85221 4.12506	0.4359 0.0255**

**Source: Estimated from Eviews Version 9**

**\*\*\* shows the rejection of the null hypothesis at 1% and \*\* 5% levels of significance.**

#### **4.36 Regression Results of the Impact of Moderation between Fiscal Discipline and Job Creation**

Presented below in Table 4.31 are the results of the regression analysis for moderation testing.

Model 1 was constructed based on the result of Granger causality test, which indicates that there was a positive relation between fiscal discipline and job creation. Results from Model 1 indicated that fiscal discipline accounts for 70% of the variance in job creation in Ghana. Government spending and revenue were statistically significant implying that reduction in government spending and increase in revenue mobilization are necessary conditions for government to achieve its job creation goals.

Model 2 is based on the relationship amongst fiscal discipline, the Washington Consensus, and job creation was tested. The findings confirmed that there was a negative relationship between

public debt and job creation. Inflation, which was used as a proxy for the Washington Consensus moderates the relationship between fiscal discipline and job creation. The result suggested that when fiscal discipline and inflation interact together, they contribute to job creation. In the same way, fiscal discipline, inflation and the interaction term of these two variables explain 85% of the variance in job creation. Public debt and increased government spending have negative effects on job creation whilst government revenue mobilization has positive impact on job creation.

Model 3 examined the nexus amongst fiscal discipline, Beijing Consensus and job creation. The results indicated that fiscal discipline has a significant impact on the economy. The Beijing consensus had impact on government spending, government borrowing, economic structural transformation, public debt and job creation. However, the aforementioned variables explained 71% of the total variation in job creation. Economic structural transformation, government revenue mobilization and job creation are positively related whilst public debt and government spending are negatively related. Put differently, fiscal discipline and job creation were moderated positively by the Beijing Consensus.

Model 4 was constructed to determine the impact of both the Washington and Beijing Consensuses on job creation in Ghana. The two-way interaction between Washington and Beijing Consensuses was positively significant. This implies that the two consensuses have had positive impact on job creation in Ghana. However, the coefficients of determination as well as the coefficient of correlation were found to be low, 28% and 26% respectively, suggesting that there was a weak correlation between the two consensuses. This was to be expected as the two economic development paradigms have opposing relationships and thus affected job creation differently on the Ghanaian economy.

**Table 4.31 Regression-Based Moderating Test Results**

**Table 4.31. Dynamic Regression-Based Moderating Test Results**

	Model 1	Model 2	Model 3	Model 4
<b>Fiscal Discipline and Job Creation</b>				
Constant	7.667			
LnBD	1.862	.072		
LnMANU	-1.444	0.159		
LnGS	2.929	0.006**		
LnGR	4.761	0.000***		
LnPD	-1.009	0.320		
R2	0.77			
Adjusted R2	0.75			
<b>Inflation</b>				
Constant		22.846		
LnBD* LnI		0.42	0.966	
LnMANU *LnI		-0.479	0.638	
LnGS *LnI		-7.746	0.050**	
LnGR *LnI		10.556	0.000** *	
LnPD *LnI		-7.553	0.000** *	
R2		0.88		
Adjusted R2		0.86		
<b>Chinese FDI</b>				
Constant			6.23	
LnBD* LnCFDI			-1.816	0.079
LnMANU* LnCFDI			3.900	0.05**
LnGS* LnCFDI			-6.462	0.000** *
LnGR* LnCFDI			6.746	0.000** *
LnPD* LnCFDI			-4.044	0.000** *
R2			0.75	
Adjusted			<b>0.71</b>	

R <sup>2</sup>									
<b>Joint Impact</b>									
LnI*LnCFDI							3.791		0.001***
R <sup>2</sup>							0.280		
R <sup>2</sup> decrease due to interaction							0.260		

**Source: Author, 2020**

NB: Job Creation is the dependent variable for all models.

\*\*\*p-value is significant at 1%

\*\* p-value is significant at 5%

### **4.37 Results from Hypothesis Testing**

Table 4.33 depicts the summary of hypothesis and propositions used for the study.

#### **4.37.1 Primary Data Analysis**

From the primary data analysis, eight hypotheses were tested and the outcomes were as follows:

Government spending and job creation as well as government borrowing and its impact on job creation were supported. Also, public debt and job creation and structural transformation and job creation were equally supported by the study. However, government revenue and job creation, budget deficit and job creation and fiscal institutions and job creation were not supported by the hypotheses.

#### **4.37.2 Secondary Data using Moderating Variables (Propositions)**

Ten propositions were tested to assess the moderating roles of the Washington and Beijing Consensuses on fiscal discipline and job creation in Ghana. From the perspective of the Washington Consensus, inflation was used as a proxy for measuring the Washington Consensus and the following propositions were found to be significant and therefore supported by the study: Government spending and Washington Consensus was supported but the direction was negative. However, the relationship between government revenue and Washington Consensus was also

significant and positive. There were relationships between budget deficit and Washington Consensus on one hand and structural transformation and Washington Consensus on the other hand. The relationship between public debt and Washington Consensus was significant and negative.

From the standpoint of the Beijing Consensus, the propositions that were significant include the following: The relationships between government spending and Beijing Consensus and public debt were found to be significant and negative whilst government revenue and structural transformation have positive relationship with the Beijing Consensus. There was however no relationship between budget deficit and Beijing Consensus.

#### **4.37.3 ARDL Analysis**

The ARDL analysis showed that there was significant relationship amongst budget deficit and job creation, public debt and job creation and government revenue and job creation in the short run. In the long run however, government revenue mobilization, structural economic transformation and government spending were supported by the hypothesis. Presented below in Table 4.32 is the summary of hypothesis that were supported or rejected by the study.

**Table 4.32: Summary of Hypothesis**

PRIMARY DATA		SECONDARY DATA		
General to Specific Analysis (GETS) MODELLING			ARDL Model	
Hypothesis		Propositions(Moderators)	Short Run	Long Run
<b>H1</b> (Government spending and job creation)	<b>Supported</b>		Budget deficit and job creation  <b>Supported</b>	Public debt and job creation  <b>Not Supported</b>
<b>H2</b> (Borrowing and Job Creation)	<b>Supported</b>		Public debt and job creation <b>Supported</b>	Government spending <b>Supported</b>
<b>H3</b> (Fiscal Institution and Job Creation)	Not supported		Government revenue and job creation <b>Supported</b>	Economic transformation <b>Supported</b>
<b>H4</b> (Public Debt and Job Creation)	<b>Supported</b>		Government Spending and job creation  <b>Not Supported</b>	Public Debt and job creation  <b>Not Supported</b>
<b>H5</b> (Structural Economic Transformation and Job Creation)	<b>Supported</b>		Structural transformation <b>Not Supported</b>	Government Revenue  <b>Supported</b>
<b>H6</b> (Government Revenue and Job Creation)	Not supported		<b>Granger Causality Test</b>  Uni-directional causality	<b>Bounds Test</b>  Cointegration exists between fiscal discipline and job

			between Fiscal discipline and job creation	creation in the long run
<b>MODERATING VARIABLES (were tested using dynamic multiple regression )</b>				
<b>Washington Consensus</b>	GS*WC	P1(t =7.746, p=0.050** )	Negative	
	GR*WC	P2(t =10.556, p=0.000***)	Positive	
	BD*WC	P3(t=-0.42, p= 0.966)	No Impact	
	PD*WC	P4(= -7.553, p=.000***)	Negative	
	SET*WC	P5(t=-0.479, p=0.638)	No Impact	
	<b>Constant</b>	<b>22.846</b>		
	<b>Coefficient of Correlation</b>	<b>Adjusted R2=85%</b>		
<b>Beijing Consensus</b>	GS*BC	P6(t=-6.462, p=0.000***)	Negative	
	GR*BC	P7(t=6.746, p=0.000***)	Positive	
	BD*BC	P8(t=-1.816, p=0.079)	No Impact	
	PD*BC	P9(t=-4.044, p=0.000***)	Negative	
	SET*BC	P10(t=3.90, p=0.05**)	Positive	
	<b>Constant</b>	<b>6.23</b>		
	<b>Coefficient of Correlation</b>	<b>Adjusted R2=71%</b>		
<b>JOINT IMPACT</b>	WC*BC	P11(t=3.791, p=0.001***)	Positive	
	<b>Coefficient of Correlation</b>	<b>Adjusted R2=28%</b>		

## **CHAPTER FIVE**

### **DISCUSSION AND CONCLUSIONS**

#### **5.1 Introduction**

The aim of this concluding chapter is to undertake extensive discussion of the results of the study and to draw final conclusions. The findings of the study are discussed in this chapter with particular reference to the impact of fiscal discipline on job creation in Ghana. In this chapter, the objectives, research questions and assumptions are held together against the findings to see where they merge or depart from each other. The chapter also focuses on the experiences learnt both from the field and literature review including the benchmarks to be adopted to address fiscal indiscipline and its impact on job creation. All the positive experiences learnt in this respect are highlighted for implementation whilst recommendations have been provided to redress negative aspects or as the way forward.

#### **5.2 Discussion of Findings**

This section discusses the findings from the research analysis with respect to the research questions. The findings are further discussed in relation to the reviewed literature in Chapters 2. This is with the view to determining whether the defined research questions have been answered from the data analysis.

Broadly speaking, the fiscal discipline variables that affect job creation in the context of Ghana include government revenue, government spending, government borrowing, Chinese foreign direct investments, budget deficit, public debt, fiscal institutions and structural economic transformation. However, these variables had varying degrees of relationship with job creation based on review of literature and findings from the field and have been individually discussed below.

### **5.2.1 Government Spending and Job Creation in Ghana**

The findings of the study indicate that government spending has impacted on job creation in Ghana. The study is consistent with Garcia (2011) who indicated that low government spending creates the necessary fiscal space for job creation. This assertion is similarly consistent with the findings of Aryeetey et al (1992) who indicated that there is the need for the government to reduce its spending so that it can mobilize local resources to create jobs and improve the general well-being of Ghanaians.

Also, various empirical studies on government spending and job creation have even conflicting findings. Kneller et.al. (1999) investigated the association between government spending and job creation and found that government spending can influence economic performance such as job creation in an economy. Thus, an increase in government spending will impact negatively on job creation unless the new borrowings are tied to projects with superior social returns. A reduction in government spending will contract the economy and will eventually lead to a low GDP growth rate which will lead to low job creation (Eminer, 2015).

More specifically, the effect of government expenditure on job creation can be traced through a number of channels such as public and private investments, taxation, transfer payment and income distribution (Njuguna, 2009). However, empirical evidence indicates that government expenditure has a positive effect on job creation (Kim and Mei, 2014).

More so, allocation of budget to the educational sector, agriculture has been quite monumental because of the Free Senior High School, Planting for Food and Jobs as well as the implementation of government's flagship project, One District One Factory. Education Ministry's budget for 2012 was estimated at four percent of GDP and translates into \$3.4billion in 2012 and rose to 6.18 percent of GDP in 2014 and this exponentially increased by 10% of

GDP in 2018 as a result of the implementation of the free senior high school programme (World Bank Report, 2018). The growth of Ghana's Gross Domestic Product (GDP) over the past five years is 5% implying that the expenditure of the government has outstripped the growth in GDP. The causes of low job creation have long been attributed to excessive government spending, unaccompanied by an increase in productivity. High expenditures by the government of Ghana have plunged Ghana into macroeconomic instability (Owusu-Nantwi and Kuwornu, 2011). Again, economic growth in Ghana has remained relatively unstable notwithstanding the increase in government expenditure. The government of Ghana spends large amount of funds on all the various sectors in the economy namely, education, health, physical infrastructure, recurrent expenditure and transfer payments. However, most of these funds are not properly accounted for. During the first republic, Ghana devoted attention to socialism as the best policy option for developing the state. At that time, government could spend so long as it was considered necessary, regardless of its impact on debt accumulation and job creation (Larbi, 2012). Kusi (2016) demonstrated that government spending goes up during election period and is a major contributory factor that affects job creation in Ghana.

### **5.2.2 Public Debt and Job Creation**

From the review of literature, the increasing importance in the use of fiscal rules and institutional monitoring of fiscal performance is necessary so that government can maintain its budget for the year. From a balanced budget perspective, it is better to combine rules with institutions to get the desired results. Wyplosz (2005) argued for the case for fiscal discipline institutions as the main anchor for controlling public debt. The logic is rooted in lack of political commitment that gives discretion to politicians. The rules versus institutions debate

suggest that neither rules nor institutions can be used to achieve optimal balance in public debt particularly in the face of economic shocks and vulnerabilities.

From the review of literature, public debt can be altered by budgetary institutions that place fiscal rules on the spending behaviour of the government. The relationship can be positive or negative depending on the level of support government gives to these fiscal institutions. The other mechanism through which public debt influences job creation is the deliberate policy by the government to focus more on strategic sectors such as agriculture and manufacturing that have potential for creating more jobs (Agenor, 2007). Controlling public debt entails pursuing vigorously, the strategies to cut down borrowings whilst stimulating growth in revenue mobilization.

### **5.2.3 Structural Economic Transformation and Job Creation in Ghana**

The findings of the study revealed that fiscal discipline and job creation have a negative relationship. This implies that when there is fiscal indiscipline in the Ghanaian economy, job creation is limited because there will be little room for maneuvering to create more jobs. Conversely, when government is able to maintain strong fiscal discipline, the economy will expand and more jobs will be created in the long run. The government reduces dependence on foreign loans, grants and aids by implementing the Ghana Beyond Aid Programme. This coupled with long term policy on structural economy transformation can help Ghana to create more sustainable jobs.

The empirical results reinforced the previous study conducted by UNCTAD (2016) who indicated that for a country to attain an emerging or developed economic status, it has to do more to add value to the services it provides to earn more foreign exchange through structural transformation programme. Ghana employs about 60% of its workforce in agriculture and these

employees' earn low incomes. Compared with the manufacturing sector Ghana employs about 10%. This explains why economic transformation is critical for job creation since it has the potential to add value to the raw materials produced by the agricultural sector for export. According to Gollin et al. (2013), economic transformation must begin with the agricultural sector before it moves into industry so that there can be backward integration linkages. This has the tendency to create jobs for the vast majority of Ghanaians in the short run.

Evidence from the review of literature indicates continuous growth in the agricultural sector results in higher employments. Timmer and Akkus (2008) demonstrated how through backward integration linkages, more jobs could be created in agro-processing sector with its multiplier effects.

According to the World Bank (2018), the extent of structural transformation determines to some appreciable extent the level of productivity and number of jobs in an economy. In this respect, growth alone is not a sufficient condition for job creation but rather growth should be shared across all the relevant sector of the economy. This calls for the development of the human capital to support the Ghanaian economy. Skills development is very important in this regard whilst ensuring that jobs created are sustainable and economically productive with desirable working conditions.

It is important that Ghana addresses its low human capital base so that it provides the basis for economic transformation (Alagidede et al 2013) and (Aryeetey et al. 2014). Baah-Boateng (2013) showed that there is a positive relationship between human capital development, labour skills and economic transformation.

Where the citizenry is highly educated with capabilities, skills, innovation and knowledge, productivity is high, national output is equally high and the economy blossoms. Fundamental to economic transformation should be skills development with its concomitant effect on poverty alleviation and job creation.

From the review of literature, Boateng and Ofori-Sarpong (2002) conducted a study to establish the link between skills supply deficit and job creation using the sciences namely medicine, health, engineering and technology, business administration and social sciences from selected Universities in Ghana from 1999 to 2000. Their findings revealed that Universities in Ghana generally speaking produce more graduates from the social sciences angle than the sciences. This contributes to the unemployment problem since more graduates are churned out from the Universities with no jobs for them. On the contrary, the scientists, engineers are in short supply. This gap makes the implementation of industrial policy difficult since there are a few graduates with that background to support our efforts in manufacturing and industry (Baah-Boateng and Baffour-Awuah 2015).

The consequences of the shortage of skills in Ghana could be disastrous for the economy as this compels us to recruit expatriates to work in Ghana. This tends to increase the national output for that country whilst it creates unemployment for Ghana. Where more graduates are produced which are not needed for the economy, it creates joblessness.

In theory, the Prebisch-Singer hypothesis holds true for Ghana's economic transformation since when Ghana adds value to its goods and services, its trade balance will considerably improve and will result in an economic gain. Harvey, et al. (2010) argues that so long as developing countries continue to depend on agriculture, their primary commodity prices will fall and thus earn low

foreign exchange. It is only through value addition through manufacturing that developing countries could improve and transform their economies.

Similarly, local content is one of the vehicles for job creation. The development of home grown policies could affect the job creation potential of a country. In the specific case of Ghana, the local content policy has been implemented in the oil and gas sector. Quite apart from the Ghana oil and gas sector, much is not known about companies in Ghana which dedicate at least 30% of all contracts to Ghanaians. Also, the implementation of the Ghana Beyond Aid Programme could be a transformational development agenda. The government must explore the possibility of reducing its public debt, fiscal deficit and to develop a medium to long-term strategy that seeks to support the growth of local companies that will contribute to Ghana' development. The taxes realized from these local companies will provide sufficient revenue to spearhead the economic development of Ghana. This has the potential to drive private savings in the economy and Ghana will be able to mobilize the \$100billion revenue required to finance the Ghana Beyond Aid programme. In terms of mineral resource management, the model presents the payment of royalties and corporate taxes by mining firms as well as developing a coherent mineral strategy that will address the depletion of the soil and gives Ghana the best out of its mineral resources. One of the key setbacks in attaining the Ghana Beyond Aid Programme is the insufficient revenue in Ghana which currently hovers around 13% of GDP. Revenue mobilization must go up to 25% of GDP in order for the domestic banks to mobilize funds to support businesses and companies.

Directly related to private savings is the idea that banks must play key roles in deepening financial inclusion to reach out to the unbanked in Ghana. This is particularly important because to achieve the overriding objectives of Ghana Beyond Aid Programme, there must be a focused

strategy of the Central Bank and the Ministry of Finance to formalize the economy and work with the commercial banks to develop products and services to profitably transform the unbanked sector into mainstream banking.

Lastly, from the analysis of the data, it is clear that loans and other external funds must be judiciously used so that they generate superior returns to Ghanaians. From the analysis of data, the implementation of the Ghana Beyond Aid can be achieved. However, a lot depends on how inflows through foreign direct investments should be mobilized. Government should track the flow of multinational companies to be attracted to Ghana when the business environment is conducive. One of the key challenges that militate against the inflow of foreign direct investments is fiscal indiscipline. Where Inflation is high; cost of doing business is high, whilst corporate tax rates are outside the reach of companies, local companies will not be able to compete favourably with the international companies.

The findings also indicate that the high level of unemployment in Ghana is due to a number of factors but largely as a result of the inability of the economy to create sufficient jobs to absorb the growing numbers of Ghanaians in the labour market. This can be attributed to the lack of transformation of the agriculture and manufacturing sectors which are critical to the growth of the Ghanaian economy. Similarly, as a result of the skills mismatch and the fact that Ghana has not restructured its educational system to produce graduates that are well suited for industry.

The structure of the economy continues to remain highly informal, with a shift in the national output composition from agriculture to low-value service activities in the informal sector. Mechanization of agriculture is critical in this regard to feed industry through the production of raw materials whilst manufacturing sector should be given a major boost to create jobs. This

implies that for the problem of unemployment to be resolved in the short to medium term, the government should develop coherent policies and programmes to grow agriculture and manufacturing sectors through an economic transformation policy.

As far as structural reforms are concerned, the variables that stand out comprise the restructuring of educational system, modernization of agriculture, digitization and formalization of the economy and credit reference bureau. The need to restructure Ghana's educational system to reflect practical skills acquisition cannot be overemphasized. The pursuit of contemporary courses in science and technology hold considerable promise for Ghana. The establishment of more technical universities to focus on technical programmes is a step in the right direction. Modernization of agriculture through farm mechanization, the use of fertilizers, irrigation schemes to grow crops all year round must be encouraged. Last but not least on structural transformation of the economy is formalization and digitization. Since the informal sector is estimated to be 70%, there is the need to transform this huge sector into the formal economy so that they can be taxed. Again, the development of appropriate national identity cards and a database for tracking multiple borrowers will go a long way to address most of the identity challenges facing the country especially in the areas of agriculture and manufacturing.

Similarly, Ghana Beyond Aid Programme is a laudable idea that can propel and transform the economy of Ghana. Ghana Beyond Aid Programme has the tendency to attract foreign direct inflows to Ghana to develop the Ghanaian economy. This will have a positive implication for the growth and development of Ghana. This finding is consistent with the research conducted by (Ilorah, 2008) who examined how foreign aids and domestic savings affect economic growth of most African countries including Ghana. He was of the view that increased savings will help developing countries to reduce poverty and unemployment.

From the review of related literature, the key concepts of foreign direct investments directly lead to job creation. When more multinationals establish presence in an economy, a lot of businesses spring up and this results in an economic boom (World Bank, 2006). Also, structural economic transformation must be contextualized within the broader framework of the economy. Some of these include improving the ease of doing business, reducing taxes, among others. In looking at Ghana Beyond Aid and its effect on transforming the economy of Ghana, Bawumia (2008) indicated that Ghana needs to examine at least five distinct pillars which include enhanced domestic revenue mobilization, mineral resource management, financial inclusion, fiscal management and innovative financial resource mobilization strategy.

From the analysis of the data, it is clear that Ghana Beyond Aid can be achieved provided government develops a roadmap for its implementation, evidently articulates the policy direction and devotes resources to Ministries, Departments and Agencies and indeed the private sector to ensure a successful implementation. At the same time, there must be a commitment on the part of every citizen to pay their taxes and believe in the philosophy of domestic savings for development. Thus, when the foreign investments are attracted to Ghana, it will augment the existing domestic development.

One of the critical imperatives for achieving the Ghana Beyond Aid Programme is the existence of funding. To this end, the government of Ghana has set aside Exim Bank, a development-oriented bank whose strategic focus is to provide funding to support agriculture and industrial development. The establishment of Exim Bank is a step in the right direction and is earmarked for the development of the various sectors of the economy by supplying the garment and apparel, manufacturing, sector, cashew, oil palm, cassava and agro-processing. If the Exim Bank is able to support the development of the private sector then, the vision of Ghana Beyond Aid can be

realized. There is, however, the need for a robust risk management framework to mitigate the effects of poor lending.

Based on the findings of the study, one cannot achieve the benefits of Ghana Beyond Aid and attract foreign direct investments to Ghana if government is not fiscally disciplined. In other words, government should be seen to be reducing its external borrowings and should be on the path to achieving fiscal consolidation to enhance economic growth. This is no gainsaying the fact that without macroeconomic stability no economic growth can be attained and in fact economic policy can be implemented. Government should cut down its spending and operate within its annual budget.

From the review of literature, Quartey, Dufe and Agyare-Boakye (2012) mentioned that foreign direct investments 'effectiveness is tied to government spending as well as how government allocate resources in an economy. They demonstrated that taxation from multinational companies could be used to create economic prosperity for Ghana if there are plans to utilize resources in a manner that facilitates economic growth and development.

From the review of literature, research and development, capacity building, firm size, regulation, production costs and the role of fiscal institutions play critical roles in attracting foreign direct investment to Ghana. Melnyk et al., (2014) conducted a study in 26 countries including Ukraine, Russia, Slovenia, and Bulgaria to investigate the effect of foreign direct investment on economic growth from 1998 to 2010. The results of the study indicated that foreign direct investments enable economic development. Djurovic (2012) similarly demonstrated how foreign direct investment affects economic growth using qualitative data from 2000-2010.

The findings also revealed that there is a positive relationship between foreign direct investments and job creation. However, she emphasized that for foreign direct investments to have positive

impact on economic development, there must be increased government spending. This is because government must spend to develop roads and general infrastructure that will help to attract more multinational companies to set up their companies in developing economies. One of the key findings of the study was how research and development lead to economic growth. This is particularly important in a country like Ghana when only a small proportion of our national budget is spent on research and development. This implies that if Ghana Beyond Aid Programme is to be realized, the government must spend on research and development.

Tintin (2012) stated that foreign direct investments bring about economic growth. The study was conducted in 125 countries in all, 38 developed, 29 least developed and 58 developing countries using panel data from 1980-2010. He however contrasted the pace of economic in the developed economies to be much higher than that of the developing countries, the major difference being the extent of capacity they have built over the years. This indicates that capacity building is very important in attracting foreign direct investments to Ghana. Again, the role of public institutions and regulation are critical ingredients for attracting more foreign direct investments to Ghana. For a lot of foreign companies to be established in Ghana, regulations relating to repatriation of profits among others must be in existence.

The Judiciary must be seen to be playing a more proactive role by adjudicating on cases early. Public institutions such as the Ghana Free Zones Board, Ghana Investment Promotion Council, Ghana Export Promotion Council and the Registrar General will have to play leading roles to support the registration of businesses and companies in Ghana as well as provide them with all the necessary information needed to set up their companies in Ghana. This was confirmed by a study conducted by Majid and Odoaba (2011) in Nigeria who explored the nexus between foreign direct investments and economic growth from 1986-2006. They found out that foreign direct

investment has a positive impact on economic development; such effects are largely driven by effective institutional management and the creation of the enabling environment.

With respect to the role of foreign direct investment in the implementation of the Ghana Beyond Aid Programme and how it affects economic growth, Louzi and Abadi (2011) indicated in their research conducted from 1990 to 2009 explained that foreign direct investment can influence economic growth and development if it is accompanied by sound policies and programmes. From the findings from the field, it is clear that the Ghana Beyond Aid Agenda has not been fully developed into a blueprint with all the goals, objectives, activities and implementation timelines. This must be seriously considered and pursued so that the government gives the needed impetus to the whole programme. An important aspect of this should be for the government to develop a coherent plan to integrate foreign direct investment into the overall national strategy.

Conversely, Brenner (2014) presented negative findings between foreign direct investments and economic growth. He discussed the ambivalent role of foreign direct investment in helping a country to develop. He attached importance to domestic mobilization of revenue and indicated that in most circumstances, multinational companies repatriate their profits, they sometimes rely heavily on expatriates to work for them in their local settings and that could have implications for the growth of the domestic economy.

Also, Andinuur (2013) in his study examined the effect of foreign direct investment on economic growth of Ghana from 1980 to 2011, pointing out that foreign direct investment can be attracted to Ghana if the government creates the enabling environment for it to thrive. Asafu-Adjaye (2005) conducted a study in Ghana to establish the relationship between economic growth and foreign direct investments and demonstrated that policy makers should understand the past

inflows to be able to predict the future foreign direct investment inflows in Ghana. Such an approach will permit an adequate review of the previous attempts to boost foreign direct investments and will be a guide as to how the Ghana Beyond Aid Programme should be undertaken.

The discussions from the literature review and findings from the field strongly suggest that local content policy can play a leading role in job creation. However, government should back local content with policies, programmes and sufficient regulation to make it work. In terms of strategies to achieve Ghana Beyond Aid Programme, the government must facilitate the process of developing land and infrastructure within the free zone enclave so that multi-national companies that want to establish presence in Ghana can do so with ease. A well-coordinated policy must be put in place by the government to support the implementation of the programme.

Lastly, the rising debt of Ghana can pose a serious challenge to the implementation of Ghana Beyond Aid Programme. Currently, Ghana spends 40% of its revenue to service its debt. The government must address this as a matter of urgency otherwise Ghana cannot reduce its dependence on foreign loans and aids. Another frustrating aspect of Ghana's debt profile is the fact that the cost of interest exceeds the cost of capital expenditure (Kwakye, 2012). Again, government must also restore macroeconomic stability for debt reduction to be effective and sustainable.

Another challenge that will affect the implementation of the programme is the failing banking sector. Even though the banking sector is liquid and stable, the sector is currently undergoing capitalization reforms to become responsive to the needs of the economy. Improving the banking sector will play an important role to stimulate growth in the domestic economy. The absence of large banks that will support public sector projects such as mining, infrastructural development

as well as lend to the government will negatively affect the programme. Where the government borrows excessively from the domestic market, it has the tendency to crowd out the private sector (2017, Ghana Banking Survey).

#### **5.2.4 Government Revenue and Job Creation**

Evidence from the field indicates that revenue mobilization can influence job creation but a lot will depend on domestic revenue mobilization efforts. Ghana must increase its revenue mobilization efforts in a bid to reduce dependence on foreign aid, loans and to reduce its rising debt. This calls for improved tax laws, technology and incentives that will make it possible for more tax revenues to be mobilized. It is significant to note that the growth of the Ghanaian economy is contingent on meeting the revenue mobilization targets set by the government and in line with the annual budgets. This will help the government to anticipate revenue; so that its expenditure can be planned in line with what the government can mobilize. This will eventually lead to lower government deficit.

Additionally, improving tax compliance is critical and must be seriously encouraged by the government. The vast majority of Ghanaians should be made aware of the serious socio-economic effect of taxation on the economy. This means that the citizenry must be educated to understand how taxes can be used as instrument for effective national development.

From the review of literature, Karingi and Wanjala (2005) posited out that one of the important considerations of improved taxation is job creation. Whilst the authors demonstrated that high taxation could reduce savings and investments, it has the potential to stimulate growth of enterprises when they are offered tax incentive which would eventually lead to economic growth.

According to the IMF (2019) domestic revenue mobilization is the cornerstone of economic management in emerging economies because it allows government room to spend whilst expanding economy to deliver the much needed infrastructure on education and health. Increased tax revenue will support Ghana's economy to reduce dependence on foreign loans, grants and aids.

### **5.2.5 Government Borrowing and Job Creation**

The findings of the study revealed that Government borrowing has a negative relationship with job creation. This is because when borrowings go up the ability of the government to create jobs will decline. From a theoretical standpoint, borrowing creates a dependency condition which does not allow the receiving country to develop its home grown policy to mobilize revenue. Borrowing from the external has serious spillover effect on the domestic economy whilst government's borrowing from the domestic markets tends to crowd out the private sector.

The findings have showed however that where the government borrows and invest in economic projects with high rates of return, the justification for the borrowing is warranted for or justified.

Even that Fosu (1996) posited that the ramifications for borrowing for stimulating economic growth and job creation could spell out a doom when it is not utilized for its intended purposes. Government's external borrowings from the Eurobond market to finance its annual budgets are worrying. To most governments in sub-Saharan Africa, Eurobonds are a means of reducing their dependence on IMF and World Bank loans. However, government's borrowing from the Eurobond market leaves much to be desired for a number of reasons:

First, utilization of the proceeds from the bond proceeds has been a problem in Ghana. Effective and efficient utilization of the funds has become a challenge. Second, Ghana faces the risk of

default as it mobilizes low tax revenue from its citizenry. This will make it difficult to service its debt when they fall due.

Third, some developing countries have defaulted on their debts. According to the Deputy Division Chief of the IMF's Monetary and Capital Markets Department, African countries have started defaulting on their debts. The Seychelles defaulted on a \$230 million Eurobond issued in 2008; Côte d'Ivoire similarly failed to pay its \$29 million debt in 2011. Ghana struggled to repay its \$750 million bond it contracted in 2017.

Ghana's fiscal management has suffered from lack of fiscal prudence since its fiscal deficit levels have been rising since 2012. As a result, government has to finance its national budget with bond proceeds. Consequently, fiscal consolidation was not attained and this had a telling effect on the economy of Ghana (Beck, 2012).

Also, there is a negative correlation between taxation and Eurobond issuance. Jackelen and Zimmerman (2011) demonstrated that Euro Bond issuance results in low domestic revenue mobilization efforts. This affects the revenue required for developmental projects. From the perspective of exports, the growth of the parallel markets such as the Eurocurrency can negatively influence Ghana's export competitiveness through the 'Dutch Disease Effect' if these significant foreign inflows cause the exchange rate to rise.

Similarly, the Eurobond can impinge negatively on investment, as the Ghanaian economy grows and jobs are created. Ayagari, et al., (2007) indicated that there is a negative relationship between public debt and investment. Ghana must therefore develop strong macroeconomic fundamentals to be able to deal with the global shocks resulting from the issuance of Euro bond.

Government external borrowing can have a telling effect on the interest rate of banks and job creation. There is therefore an inverse relationship between government borrowing from the domestic market and its overriding effect on the banking sector (World Bank, 2011).

The key lessons learnt from the issuance of Eurobond by a number of countries have not been satisfactory due to the default experience. For instance, Argentina defaulted on its debt in 2001, and restructured its \$30 billion. Columbia and Turkey similarly defaulted on their debts.

Brazil, India and Indonesia's governments have heavily borrowed from the domestic markets and have accordingly relied on external borrowings. Also, Malaysia, Mexico, Peru, Poland, Russia, South Africa, Thailand, and Turkey have all been negatively affected by shocks from the Euro bond markets. In some cases, the spillover effect of Euro Bond markets had resulted in inflation and depreciation. Evidence from the review of literature indicated that government borrowing should be cautiously undertaken in order not to worsen the economic conditions of Ghana.

### **5.2.6 Government Budget Deficit and Job Creation**

Budget deficit has a negative effect on fiscal discipline. As the government borrows more, it has to pay more interests and this will be covered by tax revenue. Also, as a result of weak monitoring of government budget, public funds are mismanaged and this affect the funds available to create jobs and implement interventions to improve the economic circumstances of the unemployed and the poor.

Fiscal institutions which could have exercised oversight responsibility on fiscal discipline have not done much to ensure that the implementation of sound and governance framework is in place to improve budget outcomes. This serves as a check on the government spending and thus limits

its deficit. In line with the IMF fiscal rules, budget deficit should not exceed 5% of GDP. This is because government can moderate its expenditure to achieve the desired discipline. This point is directly related to the common pool problem in economics. Governments come to power through their party members. Even though not all of these party members pay taxes, they are constantly seeking for a means to have their share of the national cake. Where government is unable to contain these issues and manage the economy prudently, particularly during elections, the fiscal stance of Ghana deteriorates and budget deficit gap widens. To some appreciable degree, the political commitment of the government will have effect on the budget deficit and job creation. The most important way to achieve reduced budget deficit is for the government to place a renewed commitment on achieving economic growth which will create jobs in the medium to long term.

### **5.2.7 ARDL Analysis**

First, this study investigates the causality between fiscal discipline and job creation in Ghana. The Granger causality test revealed that there is a bi-directional relationship between fiscal discipline and job creation. These findings are in line with the ARDL model, which demonstrated that there was a long-run relationship between fiscal discipline and job creation. In the short run, the error correction model showed that fiscal discipline tends to reach long-run equilibrium with a high speed for adjustment to equilibrium, when there is a shock in the Ghanaian economy. The bounds test also indicated that there is cointegration between fiscal discipline and job creation in the long run.

Results from the short run analysis indicated that fiscal discipline has a positive relationship with job creation. Government revenue, public debt and budget deficits were significant and thus showed positive relationships with job creation. It was revealed that government spending and

structural transformation have no impacts on job creation in the short run.

Overall, the findings from the study derived from the Error Correction Model confirmed the findings of Mohanty (2012) that there was an inverse short run relationship between fiscal discipline and job creation. The findings also supported the assertion that in the short run, government spending, public debt and job creation are related.

To assess the long run impact of the relationship between fiscal discipline and job creation, an ARLD long run model test was conducted. The results also suggested that government spending, government revenue and structural transformation are significant and affect job creation in the long-term. However, government revenue has a negative impact on job creation, implying that low revenue mobilization by the government cannot stimulate the desired growth in job creation. The results are consistent with the research conducted by Mohanty (2012), who demonstrated an inverse relationship between government revenue and job creation. Akosah (2013) and Nkalu (2015) conducted similar studies and their findings indicated that government revenue has inverse relationship with job creation since low revenue mobilization by the government leads to higher borrowings to bridge fiscal deficit which eventually cripples an economy.

#### **5.2.8 The Moderating Impact of Washington and Beijing Consensuses on Fiscal Discipline and Job Creation**

The study examined the moderating impact of Washington and Beijing Consensuses on fiscal discipline and job creation. The rationale was to investigate the extent to which these two moderators could positively or negatively affect fiscal discipline and job creation in the context of Ghana using regression-based test. Accordingly, four models were tested. The first model was constructed based on the result of Granger causality test, which indicates that there was a positive relation between fiscal discipline and job creation. Government spending and revenue

were statistically significant implying that reduction in government spending and increase in revenue mobilization are necessary conditions for government to achieve its job creation goals.

Similarly, the moderating role of the Washington Consensus on fiscal discipline and job creation was tested. The findings confirmed that there was a negative relationship between public debt and job creation. Inflation, which was used as a proxy for the Washington Consensus moderated the relationship between fiscal discipline and job creation. The result suggests that when fiscal discipline and low inflation interact together, they contribute to job creation. Public debt and increased government spending have negative effects on job creation whilst government revenue mobilization has positive impact on job creation.

In terms of examining the moderating impact of Beijing Consensus on fiscal discipline and job creation, the results indicated that fiscal discipline has a significant effect on the economy. The Beijing consensus had impact on government spending, government borrowing, economic structural transformation, public debt and job creation. Economic structural transformation, government revenue mobilization and job creation are positively related whilst public debt and government spending are negatively related. Put differently, fiscal discipline and job creation were moderated positively by the Beijing Consensus.

The two-way interaction between Washington and Beijing Consensuses was positively significant. This implies that the two consensuses have had positive impact on job creation in Ghana. However, the coefficients of determination as well as the coefficient of correlation were found to be low, suggesting that there was a weak correlation between the two consensuses. This was to be expected as the two economic development paradigms have had opposing impacts on the Ghanaian economy.

### **5.3 Theoretical and Managerial Implications**

The study discusses the theoretical and managerial implications of the study. First, this research will contribute to theory through the development of an efficient fiscal framework for eliminating waste associated with fiscal indiscipline and its impact on job creation. The study also contributes to enhancing fiscal allocation of resources and service delivery efficiency within the context of the public sector financial management.

From the theoretical perspective, the study applied the dependency theory to show how the over reliance on foreign aid, grants and borrowings have worsened the economic development of Ghana.

First, the dependency theory explains how due to poor home grown policy, developing countries rely on foreign aids for their development. This study departs from the others, in that it employs the concept of Ghana Beyond Aid to explain how domestic revenue mobilization could lead to economic growth and development. It filled a gap in literature through the demonstration of how Ghana can wean itself from overdependence on foreign loans, aids and grants.

Second, the endogenous economic growth theory explains how through internal mobilization of revenue, could grow the economy to achieve optimal prosperity and development. The theory indicates that the economy grows when there is efficient functioning of the economy system. This implies low inflation, high gross domestic product, low interest rate so that foreign direct investments and savings can increase in the Ghanaian economy. The theory therefore deepens our understanding of how increased domestic savings could lead to economic development and reduce dependence on foreign aid, loans and grants. Thus, the theory explains the determinants of job creation and how economic growth can be achieved in the context of a country where there is macroeconomic instability.

Third, the fiscal rules theory imposes restrictions on how governments should spend and mobilize resources and by extension the various economic conditions under which government can overspend. This has a positive effect on controlling government expenditure. This will induce economic growth and jobs will be created in the long run.

The study also presents several managerial implications. First, the government can cut down its expenditure to create jobs. The implication is that government can pursue prudent fiscal policies to reduce its borrowings without necessarily increasing its taxes. This argument is founded on the uni-directional causal effect between government spending and revenue. On the contrary, by adopting a bi-directional relationship between government spending and expenditure, a reduction in government expenditure will not induce growth until revenue mobilization is increased. This is extremely important for Ghana, where the government has been overspending its budget for the past two decades. It also sends the signals that given the fact that Ghana's current debt is estimated at 73.42% of GDP, reducing government's spending without boosting revenue mobilization will pose serious challenges for the country as it needs increased revenue to service its debt.

Second, the government must take steps to eliminate public sector waste through innovative and effective procurement processes as well as transfer of funds to the Ministries, Departments, Agencies, Metropolitan, Municipal and District Assemblies.

Third, government should implement a fiscal policy stabilization to check high expenditure. Excessive government expenditure will lead to inflation, which will spark off high interest rates, high depreciation rates, low GDP growth rate and high unemployment. This will lead to negative growth.

Fourth, the government of Ghana can pursue fiscal policies to mitigate the risks associated with external and domestic borrowings. The fiscal policy of the government should promote economic growth by reducing government budget deficit and huge public debt.

Fifth, through inclusive home grown policy targeted at tax revenue by the government, savings and investments will be increased, economic growth will be achieved and jobs can be created. In other words, attempts to raise extra revenue through increased taxation will help the government to cut down its borrowings to stimulate economic growth. It is therefore important for the government to broaden its tax base in a bid to bring revenues at par with government's spending to reduce fiscal deficits to acceptable levels. Ghana in 2011 recorded the highest growth in the world (14.4 percent) and achieved a lower middle-income status after rebasing its economy. This growth was not sustained because of the poor fiscal policy adopted by the government, excessive borrowing and overspending. Again, the lack of focus on poverty alleviation and job creation and the shift in economic development paradigm towards the World Bank and IMF policies and programmes partly explain why job creation has been low in Ghana.

Ghana has also implemented the Growth and Poverty Reduction Strategies I and II, which were part of the sustainable development goals to reduce poverty and create jobs. It can therefore be said that though Ghana has created some jobs in line with its economic growth, this has not been sustained. To achieve inclusive growth, Ghana must redefine its education to reflect the changing economic paradigm to ensure that it has the manpower to work in the manufacturing industry.

Sixth, the rising unemployment rate coupled with growing inequality and intermittent growth in GDP signals that there is the need to rethink an inclusive growth strategy of Ghana. In other words, growth in GDP should have a corresponding effect on job creation.

Seventh, in line with the home grown policy, the government should try to link the growth of the agricultural sector to the manufacturing sectors. This implies that government should devote more funds to the development of agriculture and manufacturing sectors to create more sustainable jobs. In terms of doing business in Ghana, the World Bank ranks Ghana as 108 out of 120 countries worldwide. Thus, the government should use most of the borrowings to address the energy sector challenges to create jobs in the manufacturing sector and to maintain macroeconomic stability. Ghana has not over the years paid attention to the agricultural sector as a growth driver of the economy. The implication is that unemployment will be high since agriculture contributes about 40% to GDP and would create more jobs than any other sector in Ghana.

Eighth, the study contributes to how Ghana Beyond Aid can be implemented through enhanced commitment to domestic revenue mobilization and reduction in government spending. The government should show commitment by devoting resources and developing the policy document to facilitate the implementation process. Whilst this is a necessary condition, the sufficient condition should be to key government spending in check otherwise, whatever is domestically mobilized will be spent by the government and the implementation of this lofty idea will be a mirage.

Ninth, the study implies that for the Ghana Beyond Aid Programme to take off to attract Foreign Direct Investments to Ghana, its processes and procedures for doing business must be streamlined. Without the existence of permits and conducive atmosphere for doing business and significant improvement in the business climate and tax incentives, it will be difficult for the government of Ghana to mobilize \$100 billion from foreign direct investments to finance the programme.

Tenth, implementation of Ghana Beyond Aid must come with targets and rewards systems. This will make it possible to reward Ghanaians with ideas and competencies to implement the programme to achieve its goals and objectives.

Eleventh, there should be a vibrant banking sector to support the programme. Extending loans to the SME sector is critical to the economic development of Ghana. Banks serve as a catalyst to stimulate economic development. By reducing reliance on external funding, the capacity of the banking sector will be bolstered to support the domestic economy.

The Ghana Beyond Aid programme has some effect on Foreign Direct Investment. Whilst there is a positive relationship between the two variables, the relationship is weaker when there is a poor mobilization of domestic tax revenue to augment the funds that will be mobilized through foreign direct investments for the development of Ghana. The study found out that low tax revenue mobilization and lack of planning, excessive borrowing by government and budget deficits are some of the reasons why Ghana has not attained self-sufficiency over the years. It can be said that the Ghana Beyond Aid is built around five pillars, namely enhancing domestic revenue mobilization, boosting private savings, focusing on financial inclusion, effective mineral resources management and financial resource mobilization. Foreign direct investments have increased over the years; the study showed that there has not been a coordinated attempt to look at the extent to which foreign direct investments can positively affect the economic fortunes of Ghana. Ghana Beyond Aid can therefore be looked at not only from the policy angle but also from the structural perspectives to ensure that there are appropriate institutional arrangements to support this policy to be taken off smoothly.

It can be concluded that Ghana Beyond Aid Programme is a good one but the success of the programme is dependent on payment of taxes by the citizens of Ghana and the formalization of

the economy. When the economy is digitized, a lot more of taxes and related fees can be properly tracked by the state. To stimulate economic growth, the government should improve on the ease of doing business in Ghana. We should look at our Land Administration Act; stabilize energy in the industrialized sector to grow whilst permits and related documents are streamlined so that more external companies, especially the multinationals can be sited here and taxes can also be collected from them.

Furthermore, the study indicates that agriculture should be modernized to create jobs for the youth. However, one of the factors militating against agriculture is the land tenure system. To create more jobs agriculture must be mechanized whilst due attention is given to value addition of raw materials to boost export. Thus, a key component of agricultural modernization programmes is to create 750 jobs for every additional US\$ 1million of output. This has the tendency to contribute substantially to Ghana's poverty alleviation efforts (World Bank, 2017a).

Also, Industrialization is considered as a key indicator of economic growth and job creation for that matter. The focus of industrialization is to boost manufacturing sector through value addition. Under this program, at least, one commercially viable factory is to be established in each of the 216 districts of the country to transform the economy from a service-based to a more industry-focused economy where there will be abundant production of value- added products for both local and international markets.

Similarly, one of the key considerations for job creation is infrastructure development. The government has to spend on critical infrastructure to pave the way for agricultural transformation and industrialization. There is a huge infrastructure deficit in Ghana and so the intervention by the Sino hydro project is commendable. The implementation of the Sino hydro Project by the Chinese will go a long way to reduce the infrastructural deficit of Ghana. The project has a lot of

implications for Ghana's socio-economic development. The implementation of the project will lead to improvements in local infrastructure (road network, drinking water, health and educational facilities and creation of new job opportunities for at least a few of the local people. In line with the local content policy of Ghana, government will ensure that a minimum of 30% of works will be undertaken by Ghanaian contractors, and supervised by Ghanaian consultants. Also, a number of jobs will be created for the youth and this will contribute to the reduction of the unemployment situation in Ghana.

Unlike in many other African countries, Ghana's infrastructure backbone covers the entire national territory and this project will help to link different parts of the country. The country's Infrastructure sector comprises the ports, roads, rail, aviation, electricity, water supply, transportation, telecommunications sub-sectors. The distribution of infrastructure networks in the country generally reflects the spatial distribution of economic activity, with a greater density of transport, power, and information and communications technology (ICT) infrastructure in the south and southwest of the country than in the north. The project will therefore help to bridge the north-south infrastructural gap of the country which is critical for spreading economic development across the country.

Against the backdrop of the seeming infrastructural challenges of Ghana which is estimated at \$2.3billion per year, the implementation of the Sino hydro Project will ease Ghana's infrastructural pressure for at least one year and balance government's budget. It has the potential to reduce distortions emanating from borrowing to finance government's capital budget. A recent study of the infrastructure situation in Ghana by The Africa Infrastructure Country Diagnostic Report 2010 shows that though the country is doing quite well economically, there remain serious shortfalls in the provision of infrastructure. Budget for projects and

activities in the running of the country have also experienced huge deficits in the past years, causing government to borrow sometimes beyond its limit; a situation that can be attributed to the lack of adequate funds and other resources available to government to undertake infrastructural projects across the country.

With Ghana attaining the status of a lower middle-income country, sources of concessional funding, both from donors and development partners, have reduced drastically. According to Terkper (2010), the country needs about US\$1.5 billion per year for the next decade to meet the demand for infrastructure. The Chinese intervention will go a long way to help Ghana provide the much-needed infrastructure for our national development. Ultimately, it is also worthy to note that anytime capital expenditure rises in an economy, it invigorates other sectors and leads to higher consumption.

Under the deal, Sino hydro Group Limited of China will provide \$2 billion of infrastructure of government's choice in exchange for Ghana's refined bauxite. Ghana will establish a refinery within the next three years and select its own partner to undertake the refining of the bauxite.

Again, Ghana should continue to use Chinese state-owned enterprises that focus on construction and the very established private companies such as Huawei Technologies to develop a nationally integrated infrastructure with a focus on roads, electricity, water, and ICT. The government should play a leading role in this regard, to take advantage of China's resource-backed infrastructure facilities. Second, Ghana should explore the model of Economic and Trade Cooperation Zones pioneered by China not only for supporting its infrastructural development but also in other directions as well.

The quality and efficiency of the legal and regulatory framework for attracting private sector investment into agriculture is weak. According to the World Bank (2018), reforms are needed to

improve the quality and efficiency of regulatory systems that govern access to key agricultural inputs, such as seed, fertilizer, machinery, finance, markets, transport and information and communication technologies. Agribusiness is very important for vibrant agriculture sector performance and creation of high-quality jobs because the private sector can invest in other activities beyond the primary level, such as agro-processing, transport, finance, ICT, etc., which enhance agricultural value-added products and create better and higher-wage jobs. But regulations governing access to key factors required for agribusiness investment are still seen to be somehow restrictive or limiting, relative to the best practice benchmarks (World Bank, 2012). Without a strong regulatory framework, it is challenging for investors to invest in the agricultural sector.

For the agriculture sector to achieve the scale of transformation required to sustain its growth and to create decent jobs, there is need to deepen reforms in legal, regulatory and administrative systems that affect the quality and efficiency of public sector support to agribusinesses and other stakeholders that need to invest in the agricultural value-chain. Reform in land administration and governance is critical to speed-up the processing of land and property transactions in a transparent and accountable manner.

Additionally, the use of local content can help the government to boost job creation. This is particularly necessary in an era where the country is trying to establish factories in every district to produce for home consumption and export. A well-crafted export-led strategy has the potential not only to provide jobs for the local companies and firms engaged in production but also will help Ghana generate sufficient foreign exchange to support the economy.

The study has indicated that through Ghana can receive donor assistance and loans from the IMF loans and China, Ghana's development largely depends on how the government can spend in productive sectors of the economy to contribute to job creation. At the private sector level, the pursuit of the local content strategy will encourage these companies to equally provide jobs to Ghanaians in other sectors as well.

Overall, the implications of the study are that effective implementation of fiscal policies will reduce rising public debts, increased government spending and budget deficit. There is the need to boost revenue mobilization as well as structurally transform the economy of Ghana to create jobs in the medium to long-term. A necessary condition is for Ghana to shift from the Washington and Beijing Consensuses and develop a home grown policy capable of sustaining the Ghanaian economy.

#### **5.4 Summary of Main findings**

The findings of the research have shown that fiscal discipline has impacted on job creation. Whilst the Washington and Beijing Consensuses have somehow impacted on job creation, they have not helped Ghana to be effective at developing home grown policies to permanently find solutions to the joblessness within the Ghanaian economy. To this end, structural economic transformation is very important in ensuring that the Ghanaian economy is put on a sustainable path through growth in strategic sectors of the economy such as agriculture and manufacturing. Weak budget monitoring by the fiscal institutions and Parliament have contributed in no small measure to budget overruns and budget deficit. Structural reforms that would lead to the restructuring of our educational system, modernization of agriculture with backward integration of raw materials to the manufacturing sector is critical for Ghana's economic development.

Local content policies have a positive relationship with fiscal discipline and job creation. In particular, the findings of the study indicated that Ghana Beyond Aid Programme would have positive impact on job creation. Effective debt management and productive government spending can play useful roles in sustaining government's efforts at job creation.

Findings from the primary data analysis indicate that government borrowings should be cautiously undertaken particularly from the Euro bond market so the spillover effects or the shocks from the global environment do not affect Ghana greatly. Also, investing in economic projects with high rates of return was found to be desirable whilst structural economic transformation should be prioritized by the government as a key area of focus to stimulate growth in the local economy. Another finding from the primary data analysis relates to how government borrowings can be curtailed through fiscal institutions and fiscal rules. Both findings from literature and the field support the combination of fiscal rules and fiscal institutions in order to commit government to fighting fiscal discipline.

These findings also demonstrated that there is a long-run relationship amongst structural transformation, revenue mobilization, government spending and job creation. In the short run, the error correction model showed that fiscal discipline tends to reach long-run equilibrium with high speed of adjustment when there is a shock to the Ghanaian economy. Results from the short run analysis also indicated that fiscal discipline has a positive relationship with job creation and that government revenue, public debt and budget deficits have significant impact on job creation. It was revealed that government spending and structural transformation have no impacts on job creation in the short run. This implies that even if government spending goes up in the short run, it does influence job creation. Government revenue is positively related to job creation in the short run.

The long run results from the Auto Regressive Distributed Lag also suggest that whilst government spending and structural transformation positively affect job creation, government revenue tends to negatively impacts on job creation.

The study examined the moderating impact of Washington and Beijing Consensuses on fiscal discipline and job creation. The rationale was to investigate the extent to which these two moderators could positively or negatively affect fiscal discipline and job creation in the context of Ghana using regression-based test. Similarly, the moderating role of the Washington Consensus on fiscal discipline and job creation was tested. The findings confirmed that there is a negative relationship between public debt and job creation. The implementation of the Washington Consensus has moderated the relationship between fiscal discipline and job creation. When fiscal discipline and low inflation interact together, they contribute to positive job creation. Conversely, when high inflation rates interact with fiscal discipline, they contribute to low job creation in the economy.

Also, the moderating impact of Beijing Consensus on fiscal discipline and job creation was tested. When the Beijing Consensus interacts with fiscal discipline, they positively affect structural transformation, government revenue mobilization and job creation and negatively affect public debt and government spending.

The two-way interaction between Washington and Beijing Consensuses positively affect job creation even though the correlation between the two consensuses is weak. This was to be expected since the two economic development paradigms have opposing impacts on the Ghanaian economy. In terms of the number of jobs that have been created in the Ghanaian economy following key findings, they can be summarized as follows:

- From the point of view of job creation from the Chinese in Ghana, manufacturing sector seems to be the highest, followed by agriculture and construction
- In terms of job creation from the private sector, 1,627 jobs were created by the manufacturing sector.
- For job creation in the public sector, the manufacturing sector was still the highest, recording 20,199 jobs, followed by agricultural sector with 2,200 jobs.
- In terms of challenges facing the government in maintaining fiscal discipline so as to create jobs, 60% of the respondents cited borrowing as the highest challenge.
- 58% mentioned more government spending is a contributor to fiscal indiscipline
- 43% indicated weak budget monitoring is a key driver of fiscal indiscipline

### **5.5 Achievement of the Study Objectives and Hypothesis**

This section describes conclusions regarding the achievement of the study objectives; conclusion will be drawn based on the literature review and findings from the field. In terms of meeting the objectives of the study, objectives 1, 2, 4, 5 and were met and supported by the hypothesis of the study. However, 3 and 6 were not supported by the hypothesis of the study.

### **5.6 Conclusion**

The study sought to investigate the impact of fiscal discipline and job creation. Whilst the Ghanaian economy has not seen sustained economic growth over two decades as a direct result of lack of weak budget monitoring, implementation of Washington and Beijing Consensuses which are externally-driven, rising public debt, increasing interest servicing costs, misappropriation of public funds, excessive government spending and excessive borrowing. These factors have contributed substantially to fiscal indiscipline and have weakened the

potential for job creation in Ghana. It has been found from the study that lack of structural transformation of the Ghanaian economy from an agrarian to an industrialized one partly explains the existence of huge unemployment in Ghana. This, coupled with the informal nature of the economy, which is currently estimated at 70%, further explains why there are a few jobs in Ghana.

The study concludes that fiscal discipline is a necessary condition for job creation. Whilst fiscal discipline is necessary, government can also implement deliberate home grown policies to create jobs in the long-run. The best approach towards economic transformation is a good fiscal discipline coupled with efficient functioning of the economic system in Ghana. Maintaining fiscal discipline through improved sound fiscal practices will go a long way to free resources for job creation.

At the same time, government must ensure that it invests borrowed funds in projects with high social returns. In other words, government should engage in responsible borrowing and formulate an international debt workout mechanism that has the tendency to address the rising public debt of Ghana.

Job creation programmes and interventions implemented by the various governments in Ghana have not paid off. Following unstable economic trajectory, the government of Ghana has not succeeded in using an inclusive, home grown policy to address the high levels of unemployment. Whilst poor fiscal environment does not warrant economic growth and job creation, low domestic revenue mobilization will make it extremely difficult for the government to drive its job creation agenda. Efforts must be made by the government to address fiscal indiscipline to achieve economic growth so that jobs can be created for the youth.

The study has indicated that one of the sources of fiscal indiscipline is government spending and rising debt of Ghana. Since 2012, Ghana has consistently recorded high government spending and borrowings to finance budget deficit. This has ramifications for Ghana's debt sustainability and economic growth. The trend analysis has clearly shown that Ghana has been borrowing at high interest rates from both the domestic and particularly the external markets. This has tended to affect the growth of the economy and hence job creation.

Findings from the General to Specific Modeling and Auto Regressive Distributed Lag model indicate that there is an inverse relationship between government spending, public debt and job creation and has made it difficult for resources to be effectively mobilized to create jobs. This finding supports the neoclassical view that high government spending does not imply economic growth in the long run but crowds out the domestic market and makes it impossible for companies and businesses operating within the local market to get access to capital from the banks to expand their businesses. High government spending leads to more borrowings, an increase in taxes and decline in domestic savings and investments. The overall effect is that government spending and higher borrowings constrain job creation.

This study concludes that an increasing government spending will have a telling effect on fiscal discipline and job creation in Ghana, particularly in the long run. From the findings of the research, it can be concluded that even though both the IMF and Chinese economic policies and programmes have affected the economy of Ghana and how jobs can be created, the IMF's policies have had detrimental effect on the job creation potential of Ghana than the Chinese Consensus.

## **5.7 Recommendations**

The study has given a clear picture of the impact of fiscal discipline on job creation in Ghana, particularly in the context of the implementation of IMF and Chinese economic policies and programmes and its impact on job in Ghana. Whereas the IMF programmes supported Ghana's macroeconomic stability, the Beijing Consensus provided Ghana with foreign direct Investments which contributed to job creation and poverty alleviation in the ICT sector, manufacturing, agriculture, construction and the retail sectors. In order to improve fiscal discipline to impact on job creation, the following recommendations are offered in this direction:

1. There is the urgent need for the government to enhance domestic revenue mobilization as a major anchor for achieving job creation. Institutional strengthening is key to attaining fiscal policy goals. Whilst monetary policy is important in controlling inflation and exchange rate, fiscal policy is critical in boosting savings and investments.
2. Government should ensure efficient allocation of budgetary resources to address the huge infrastructural deficit.
3. Government should create an enabling environment for private sector firms to thrive. This will contribute to job creation and generate investor confidence. At the same time, the judicial systems must be improved, tax regime streamlined by broadening the base of taxation to include the informal sector to increase domestic revenue, whilst improving the transparency and accountability of the process.
4. Ghana Beyond Aid is a philosophy and its implementation should be properly coordinated by an inter-ministerial Committee which will track progress of work and report significant deviations for improvement.
5. It is important for government overspending for economic growth to be attained when foreign direct investment is increased through a planned policy of keeping debt under

control, restoring fiscal management and ensuring that the economic fundamentals of Ghana are right. This will lead to job creation.

6. There should be a commitment on the part of the government to support the banking sector to stimulate growth in the economy by extending credit to businesses and companies that need capital for expansion. In this way, the economy of Ghana will be transformed and jobs will be created. It will also facilitate the integration of Ghana into the global economy through the development of international networks of multinationals that will establish a presence in Ghana.
7. The government should adhere to fiscal policy that will allow it to operate within its budget for the year. There should be budget discipline to reduce the fiscal slippages and misappropriation of funds. Government should also pursue a strong fiscal consolidation to reduce its accumulated debt whilst widening its tax net to generate more tax revenue to garner economic growth.
8. One of the critical issues that arise with respect to debt sustainability is how the government is be able to mobilize domestic resources to service the debt. In this regard, the government should employ the services of professional technical staff with in-depth knowledge in debt management.
9. Weak public financial management is the source of fiscal indiscipline observed in the country over the years. To support and sustain fiscal adjustment, measures to reform and strengthen public financial management, in terms of establishing credibility, predictability and control over budget execution, should be of significant concern to the government.
10. The public financial management reform should aim at modernizing the system by breaking away from the current regime of weak accountability to laying the basis for a more effective

corporate governance framework in the public sector. The key objectives of the reform should be to modernize the system of financial management, allow public sector officials to manage but, at the same time, hold them accountable; ensure timely provision of quality information; and eliminate waste and corruption in the use of public resources.

11. The Financial Administration Act and its accompanying regulations should be amended to include a focus on outputs and responsibilities, rather than the current rules-based approach.
12. To achieve successful fiscal consolidation, there is a strong need for expenditure control. A serious action is required to deal with the public sector wage bill since it has been a major cause of government expenditure overruns.
13. Ghana's manufacturing sector should be revived to help conserve foreign exchange and support the value of the cedi, reduce inflation, support economic growth and boost exports.
14. To transform the Ghanaian economy through agriculture and industrialization, there is the need to modernize our curricula in tertiary institutions so that what is being taught in academia will have industry relevance. This will boost employability for graduates. Government must encourage the study of entrepreneurship in the universities. The government should also focus on restructuring of curricula to include technical and entrepreneurial disciplines to provide the youth and graduates with entrepreneurial skills that will enable them to set up their own businesses or to become more employable in the job market.
15. The government should manage the economy in such a way that it will mobilize local resource for the development of Ghana and reduce dependence on the IMF and the Chinese. Even though in comparative terms, the Chinese economic development paradigm is more

flexible than the IMF, ultimately, the pivot upon which Ghana's economic development should revolve around is home grown policies.

16. In the short-term, government policies and strategies must focus on achieving macroeconomic stability, maintaining debt sustainability, proceeds from Eurobond should be spent on infrastructure that offers greater scope for augmenting revenue earnings and creating employment opportunities. In other words, proceeds from the Eurobond should be used to finance and invest in projects with high economic multipliers. In the Long-term, government policies should focus on developing domestic capital markets and institutions, adequately sequencing the liberalization of capital account (with care) and vigorously increasing exports earnings (Aramaki, 2006) and ( Zhang, 2015).
17. There is a need for a more proactive engagement with investors. A more active engagement with investors will grow the appetite for Ghana's debt and facilitate the distribution of future Eurobonds. To foster robust economic growth and forestall any domino effect on the domestic economy, the Ministry of Finance and Economic Planning must create new business models to sustain the economy.
18. Government should pursue a sound fiscal policy that will improve tax mobilization and create more jobs to grow the economy as well as be clear on the specific projects that must be financed from the Euro market. The Eurobond market can pose challenges to Ghana in the long-term if Ghana is not able to repay its external loans. This could have an adverse effect on the domestic market. For Ghana to be able to service its debts and be placed on a path of sustainable growth, the country must pursue export-led strategies aimed at strengthening its export base, boosting tax revenue as well as increasing domestic savings and investments.

Indeed, the growth strategy of Ghana should be anchored on self-dependency and not from loans, grants and foreign aid in the long run.

### **5.8 Recommendations for Future Research**

The focus of the study was on examining the relationship between fiscal discipline and job creation in Ghana. Whilst some of the issues relating to revenue mobilization, government spending, and budget deficit were addressed, there still remains some relationship between public debt repayment and job creation. The study recommends that future research should investigate the relationship between the cost of public debt service and job creation. Future studies should also look at how fiscal discipline could reduce fiscal rigidities and vulnerabilities in the Ghanaian economy.

Future research should examine the link between debt repayment, domestic revenue mobilization and government spending. This will throw more light on how Ghana can mobilize domestic revenue for development fashioned around reduced borrowings and government spending. It is also suggested that future research should explore how reliance on foreign aid could stifle the economic development of Ghana. The general view is that Ghana has over relied on foreign aid and loans for the implementation of most of its economic policies and programmes, but has not had a substantial impact on its economic development. Future research should explore the extent to which fiscal discipline can positively grow Ghana's economy to be self-reliant so that Ghana can reduce dependence on loans for its economic development.

## REFERENCES

- Abata et al, (2012), Fiscal/Monetary Policy and Economic Growth in Nigeria: A Theoretical Exploration, *International Journal of Academic Research in Economics and Management Sciences* September 2012, Vol. 1, No. 5
- Abdullah, H., Habibullah, S., Muzafar and Baharumshah, Z. (2009). The Effects of Fiscal Variables on Economic Growth in Asian Economies: A Dynamic Panel Data Analysis. *International Journal of Business and Management*, 4 (1): 56-69.  
<http://www.ccsenet.org/journal/index.php/ijbm/article/viewFile/565/4633>
- Abiad, A., and Ostry, J. D., (2005) *Primary surpluses and sustainable debt levels in emerging market countries*. IMF Policy Discussion Paper, PDP/05/6, pp. 1-19.
- Abu-Bader, S. & A. S. Abu-Qarn (2003). Government Expenditures, Military Spending and Economic Growth: Causality Evidence from Egypt, Israel, and Syria. *Journal of Policy Modeling*, 25, 567-583.
- Acemoglu D, S Johnson, J Robinson and Y Thaicharoen (2003), 'Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth', *Journal of Monetary Economics*, 50(1), pp 49–123.
- Addae-Boahene, A (2007) Ghana: Aid Effectiveness and the Education Sector: Implications for Civil Society an Alliance 2015 report
- Afxentiou, P. C. and Serletis, A. (1996). 'Growth and Foreign Indebtedness in Developing Countries: An Empirical Study Using Long-term Cross-Country Data.' *The Journal of Developing Areas*, 31, Fall, pp. 25-40.
- Ahiakpor, James C. W. (1985). "The Success and Failure of Dependency Theory: The Experience of Ghana". *International Organization*. 39 (3): 535–552. ISSN 0020-8183.

- Akosah, N. K. (2013). Threshold Effect of Budget Deficits on Economic Growth in Ghana: An Empirical Analysis. *Available at SSRN 2289523*.
- Amadi, L. (2012) “Africa: Beyond the “new” dependency: A political economy,” *African Journal of Political Science and International Relations*, 6:8, pp. 191-203.
- Amoah, B. and Loloh, F.W. (2008) “Causal Linkages between Government Revenue and Spending: Evidence from Ghana”, Staff Working Papers, Bank of Ghana
- Amoateng, K. and Amoako, A. B. (1996). ‘Economic Growth, Export and External Debt Causality: The Case of African Countries’. *Applied Economics*, Vol. 28, 1, pp. 21-27.
- Andinuur, James, (2013), “Inflation, Foreign Direct Investment and Economic Growth in Ghana”, UG space, University of Ghana
- Anokye, M. Adam and Tweneboah, George, (2008), “Impact of Foreign Direct Investment on Economic Growth: ‘Ghana’s Evidence’, *International Research Journal of Finance and Economics* Issue 26.
- Antwi, Samuel and Xicang, Zhao, (2013), “Foreign Direct Investment: A Journey to Economic Growth in Ghana - Empirical Evidence”, *International Business & Economics Research Journal* Vol. 12, No. 5
- Antwi, Samuel, Atta-Mills, Ebenezer Fiifi Emire, Atta-Mills, Gifty Atta and Xicang, Zhao (2013), The Impact of Foreign Direct Investment on Economic growth: Empirical Evidence From Ghana, *International Journal of Academic Research in Accounting, Finance and Management Sciences*. Vol. 3, No1.
- Arndt, H.W. (1985). "The Origins of Structuralism." *World Development*, 13(2) p. 151-159.
- Aramaki Kenji (2006) Sequencing of capital. Account Liberalization-Japan’s Experiences and their implications for China, *Public Policy Review*2(1), 177-229.

- Aryeetey E., Y. Asante and A.Y. Kyei (1992) “Mobilizing Domestic Savings for African Development and Diversification: A Ghanaian Case Study” International Development Centre, Queen Elizabeth House, mimeo.
- Aryeetey, E. and J. Harrigan (2000) “Macroeconomic and Sectoral Developments since 1970” in *Economic Reforms in Ghana, The Miracle and The Mirage*, edited by E. Aryeetey, J. Harrigan and M. Nissanke, James Currey and Woeli Publishers, Oxford, 2000
- Aryeetey, E., (1994) “Private Investment Under Uncertainty in Ghana”, *World Development*, Vol. 22, No. 8 , pp. 1211-1221.
- Aryeetey, E., J. Harrigan and M. Nissanke (eds). (2000) *Economic Reforms in Ghana, The Miracle and The Mirage*, James Currey and Woeli Publishers, Oxford.
- Asafu-Adjaye, John , (2005), “What has been the impact of foreign direct investment in Ghana” Institute of Economic Affairs Publication IEA, 2005, Accra, Ghana.
- Asante, Y, F. Nixson and G.K. Tsikata (2000) “The Industrial Sector Policies and Economic Development”, in *Economic Reforms in Ghana, The Miracle and The Mirage*, edited by E. Aryeetey, J. Harrigan and M. Nissanke, James Currey and Woeli Publishers, Oxford, 2000
- Asante, Y. (2000) “Determinants of Private Investment Behaviour in Ghana, *AERC Research Study 100*, African Economic Research Consortium, Nairobi.
- Asiama. J Akosah .N. Owusu-Afriyie E. (2014) An Assessment of fiscal Sustainability in Ghana, Working Paper WP/BOG-2014/09
- Ayyagari, M., T. Beck, and A. Demirgüç-Kunt, (2007) “Small and Medium Enterprises across the Globe.” *Small Business Economics* 29(4), 415–34.

- Baer, Werner (1972), "Import Substitution and Industrialization in Latin America: Experiences and Interpretations", *Latin American Research Review* vol. 7 (Spring): 95–122.(1972)
- Balassa, B. (1971). *The Structure of Protection in Developing Countries*, Johns Hopkins University Press, Baltimore.
- Balassa, B. (Ed) (1982). *Development Strategies in Semi Industrialized Economies*, Johns Hopkins University Press, Baltimore.
- Banful, A. J. (2010). The legal regime of Ghana’s upstream petroleum industry and the role of GNPC as a player and a regulator“. *The Ghana Policy Journal*, 2010, Institute of Economic Affairs, Accra. Available at [p://www.ieagh.org/index.php/publications/ghana-policy-journal](http://www.ieagh.org/index.php/publications/ghana-policy-journal) (Accessed: January 10, 2019).
- Bank of Ghana (2012). *Annual Report and Accounts 2012*. Accra
- Bank of Ghana (2013). *Annual Report and Accounts 2013*. Accra
- Bank of Ghana, (2005). *The HIPC initiative and Ghana’s External Debt: An Empirical Assessment and Policy Challenges*. Policy Brief, Special Studies, Research.
- Bank of Ghana, Monetary Policy Committee, Press Release, July 2014.
- Bank of Ghana, Statistical and quarterly bulletins, (2000-2013), [www.bog.gov.gh](http://www.bog.gov.gh). [33].
- Bawumia M.(2018) Ghana beyond aid and economic transformation: A paper presented at the Africa Centre For Economic Transformation in collaboration with Finance Ministry and the International Monetary Fund (IMF), pages 3-10.
- Bawumia, Mahmud (1998) Understanding the Rural-Urban Voting Patterns in the 1992 Ghanaian Presidential Elections. A Closer Look at the Distributional Impact of Ghana Structural Adjustment Programme? *The Journal of Modern African Studies*, Vol. 36.1-4
- Bernanke, S. Ben, (2010) “Fiscal Sustainability and Fiscal Rules,” Remarks at the Annual Meeting of the Rhode Island Public Expenditure Council, Providence, Rhode Island,

October.

- Beck, T., Uhlig (2012) “Insulating the financial sector from the European debt crisis: Eurobonds without public guarantees”, VoXEU. org, 17 CEPR’s Policy Portal.
- Bhagwati, J.N. (1978). *Anatomy and Consequences of Exchange Control Regimes*, Ballinger, Cambridge.
- Bhagwati, J.N. (1988). *Export-Promoting Trade Strategy: Issues and Evidence*, Oxford University Press.
- Bhatia, N., Drew, J. (2006) *Applying Lean production to the public sector*. The McKinsey Quarterly.
- Bleaney, M., and Halland, H. (2016). Do resource-rich countries suffer from a lack of fiscal discipline?
- Bohn, H. (2008). “The Sustainability of Fiscal Policy in the United States”, in R. Neck and J. Sturm (eds.), *Sustainability of Public Debt*, MIT Press, pp. 15–49.
- Bourguignon, F. (2016) “Inequality and Globalization: How the Rich Get Richer as the Poor Catch Up,” *Foreign Affairs*, 95:1, pp. 11-15.
- Boyatzis, R. (1998). *Qualitative Information: Thematic Analysis and Code Development*, Sage Publications.
- Brenner, Thomas, (2014), “The Impact of Foreign Direct Investment on Economic Growth – An Empirical Analysis of Different Effects in Less and More Developed Countries”, Working Papers on Innovation and Space Philipps-Universität Marburg.
- Caballero, R.J. and Krishnamurthy, A. (2004). "Fiscal policy and financial depth", NBER Working Papers No. 10532.

- Chang, Ha-Joon (2002). *Kicking Away the Ladder: Development Strategy in Historical Perspective*. London: Anthem Press.
- Charles O. (2012) Domestic debt and the growth the Nigerian Economy, *research journal of finance and accounting* 45-56
- Cinar, M., Eroglu, I., & Demirel, B. (2014). Examining the Role of Budget Deficit Policies in Economic Growth from a Keynesian Perspective. *International Journal of Economics and Finance*, 6(10), 191.
- Creswell, J.W. (2007). *Qualitative Inquiry & Research Design- Choosing Among Five Approaches*. Thousand Oaks, CA: SAGE Publications, Inc.
- De Simone, E. (2010). The Concept of Budget Transparency: Between democracy and fiscal illusion. *Public choice e political economy. I fondamenti positivi della teoria di finanza pubblica: fondamenti positivi della teoria di finanza pubblica*, 103.
- Developments: Policies and Options in Nyanteng V.K (ed.) *Policies and Options for Ghanaian Economic Development*, 2nd Edition, Institute of Statistical, Social and Economic Research, University of Ghana.
- Djurovic, Andrijana Bogdanovska, (2012), “The Impact of Foreign Direct Investment on the Economic Growth in Developing countries”, *Economic Development*, 3/2012
- Doh-Nani, R., (2011) *Is Ghana’s budget sustainable? A cointegration analysis*. As a partial fulfillment of the requirement of the award of master in Economics, Kwame Nkrumah University of Science and technology, Faculty of Social Sciences.
- Dollar, D and A. Kraay (2001). *Trade, growth and Poverty*. World Bank, Mimeo.
- Donkor, K. (1997) *Structural Adjustment and Mass Poverty in Ghana* Brookfield: Ashgate Publishing Company.

- Dos Santos, T. (1970) "The Structure of Dependence," *The American Economic Review*, 60:2, pp. 231-236.
- Easterly, W. (1998), Quest for Growth. World Bank, Summary.
- Eduardo Lora, 2012, "Structural Reforms in Latin America: What Has Been Reformed and How to Measure It (Updated version)" Inter-American Development Bank Working Study #346, Washington, December.
- Elian (2010) fiscal discipline, transparency and fiscal governance: a structural equation model approach, department of economic studies "s. vinci" and crisei, parthenope university, naples, italy and department of social sciences- university of naples l'orientale
- Fata's, A. and Mihov, I. (2005) Fiscal Discipline, Volatility and Growth, INSEAD and CEPR annual publication 2005
- Fields, G. (1984). Employment, Income Distribution and Economic Growth in Seven Small Asian Economies, *Economic Journal*, Vol: 24, pp 74-83.
- for Ghana*. IMF Country Report No. 15
- Fosu, A. K. (1996). 'The External Debt Burden and Economic Growth in the 1980s: Evidence from Sub-Saharan Africa'. *Canadian Journal of Development Studies*, Vol. 20, 2, pp. 307-318.
- Fosu, A. K. (1996). The impact of external debt on economic growth in sub-Saharan Africa, *Journal of Economic Development* 21(1): 93-117, Department, Bank of Ghana.
- Franko, P. M. (2007). The puzzle of Latin American economic development (3rd ed.). Lanham: Rowman & Littlefield.

- Frimpong, J. M. and Oteng-Abayie, E. F., (2006), “Bivariate Causality Analysis between FDI Inflows and Economic Growth in Ghana”, *International Research Journal of Finance and Economics*, Issue 15 (2006)
- Frimpong, J. M. and Oteng-Abayie, E.F. (2006). ‘The Impact of External Debt on Economic Growth in Ghana: A Cointegration Analysis’. *Journal of Science and Technology*, Vol.26, 3. Retrieved on 1 May 2010 from <http://dspace.knust.edu.gh/dspace>
- Frimpong, M. and Oteng-Abayie, E.F.(2003). The impact of external debt on economic growth in Ghana: A Cointegration Analysis. *Journal of Science and Technology*, 26(3):121-130.
- Gale, W. G., & Orszag, P. R. (2003). The economic effects of long-term fiscal discipline. Urban Institute.
- Georgantopoulos, A. G., & Tsamis, A. D. (2011). The macroeconomic effects of budget deficits in Greece: A VAR-VECM approach. *International Research Journal of Finance and Economics*, 79(2), 78-84.
- Ghana Statistical Service. (2007). *Pattern and trends of poverty in Ghana, 1991-2006*.
- Giammarioli.N., C. Nickel, P. Rother and J.P. Vidal (2007), “Assessing Fiscal Soundness: Theory and Practice” *Occasional Paper Series # 56*, European Central Bank.
- Gockel, A.F., Kwakye, J.K., and Osei, B. (1997). Financial and Monetary
- Government of Ghana (2003), *Ghana Poverty Reduction Strategy 2003-2005: an Agenda for Growth and Prosperity*, Accra, Ghana.
- Gupta, S., Verhoeven, M. and Tiongson, E. (1999). Does Higher Government
- Hauss, Charles (2014). *Comparative Politics: Domestic Responses to Global Challenges*(9 ed.). Cengage Learning. pp. 417.

History of ECLAC". Economic Commission for Latin America and the Caribbean. United Nations. Retrieved 10 October 2016.

Hold for Nigeria and Ghana? *European Journal of Scientific Research*, Vol. 138 No 2, pp.168-181

Hotchkiss, J. L. et al. (1994). Export Expansion and Growth at Different Stages of Development, *Journal of Economic Development*, Vol: 19, Number 1.

Hou Y and Willoughby K (2010), Fiscal Discipline in Subnational Governments: A Capacity Measure of Financial Management in American Governments

Hymer, S., 1976 (1960 dissertation): "The International Operations of Nation Firms: A Study of Foreign Direct Investment", Cambridge, MLT Press.

IMF (2011), "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis", *Fiscal Affairs Department and the Strategy. Policy, and Review Department.*

IMF (2012).Fiscal Regimes for Extractive Industries: Design and Implementation. Prepared by the Fiscal Affairs Department, International Monetary Fund

IMF (2012): "Balancing Policy Risks," *Fiscal Monitor*, April 2011 [2] Debertoli, D. and R.

Nunes (2010). "Fiscal Policy under Loose Commitment", *Journal of Economic Theory* 145(3), 1005–1032.

IMF (2015). International Debt Statistics Database: Definition of variables.

Import Substitution and Industrialization in Latin America: Experiences and Interpretations. Baer, 1972

International Monetary Fund (2015). *Ghana request for a three-year arrangement under the extended credit facility staff report; press release; and statement by the executive director*

- Jackelen, H. and J. Zimmerman (2011). *A Third Way for Official Development Assistance: Savings and Conditional Cash Transfers to the Poor*. New York and Washington DC: Growing Inclusive Markets, United Nations Development Program, and The Global Assets Project, New America Foundation.
- Jebuni, Charles D. (1995). *Governance and structural adjustment in Ghana (English)*. PSD occasional paper; no. 16. Washington, D.C. The World Bank Publication
- Jeffrey Sachs (1985), "External Debt and Macroeconomic Performance in Latin America and East Asia," *Brookings Studys on Economic Activity* 2, pp.523–573.
- Kalyoncu, H. & K. F. Yucel (2006). An Analytical Approach on Defense Expenditure and Economic Growth: The Case of Turkey and Greece. *Journal of Economic Studies*, 5, 336-343.
- Kay, C. (2011) “Andre Gunder Frank: ‘Unity in Diversity’ from the Development of Underdevelopment to the World System,” *New Political Economy*, 16:4, pp. 523-538.
- Keynes, J. M. (1936) *The General Theory of Employment, Interest and Money*. Basingstoke, Hampshire: Palgrave Macmillan. ISBN 0-230-00476-8.
- Konadu-Agyemang, Kwadwo (2000). "The Best of Times and the Worst of Times: Structural Adjustment Programs and Uneven Development in Africa: The Case of Ghana." *Professional Geographer*, 52(3) p. 469-483.
- Krueger, A.O. (1978). *Liberalization Attempts and Consequences*, Ballinger, Cambridge (for the National Bureau of Economic Research).
- Krueger, A.O. (1983). *Trade and Employment in Developing Countries, Synthesis and Conclusions*, Chicago, University of Chicago Press.

- Kumar MS, Ter-Minassian T (2007). Promoting Fiscal Discipline. IMF publication October 2007
- Kumar, R. (2005) *Research Methodology*. 1<sup>st</sup> ed. London: Sage Publications.
- Kumar,M and Woo.J (2010) Public debt and growth, IMF working papers, 1-47
- Kusi N.(2016) A paper presented on the state of the economy lecture at the Ghana Institute of Statistical and Economic Research.
- Kwakye J.K. (2012) Ghana's Debt Profile and Sustainability, No.34 IEA Monograph
- Larbi, D. A. (2012). The long term impact of budget deficits on economic growth in Ghana. *Journal of Business Research*, 6(2), 22-34.
- Levich, Richard( 2001), International Financial Markets 2<sup>nd</sup> edition, Published by McGraw-Hill/Irwin, Copyright McGraw-Hill Companies, inc.
- Lustig, Lustig, Luis Lopez-Calva and Eduardo Ortiz-Juarez, 2013, “Deconstructing the Decline in Inequality in Latin America,” World Bank Policy Research Working Study No. 6552, Washington, July.
- Maizels, A. (1998) The Manufactures Terms of Trade of Developing Countries with the United States, 1981-97, Queen Elizabeth House, University of Oxford, Working Study Number 36.
- Mamadou, B. D. (2010). Fiscal Policy, External Debt Sustainability, and Economic growth: Theory and Empirical Evidence for Selected Sub-Saharan African Countries the new school for social research.
- Marful-Sau, S (2009). „legal and fiscal regimes of Ghana's upstream oil and gas industry: Is it investor attractive? A comparative study with the fiscal regimes of Nigeria and Angola oil industry” Centre for Energy, Petroleum and Mineral Law and Policy Gateway,
- Mehmet, Ozay (1999). *Westernizing the Third World: The Eurocentricity of Economic Development*. London: Routledge.

Ministry of Finance, (2013) The Budget Statement and Economic Policy of the Government of Ghana for the 2014 Financial Year, November, (2013); [www.mofep.gov.gh](http://www.mofep.gov.gh)

Miller, Darius P. (1999) "The market reaction to international cross-listings: evidence from depository receipts" *Journal of Financial Economics*, 51 p. 103-123.

Mohanty M.S (2003), Fiscal policy, public debt and monetary policy in EMEs: an overview, BIS paper No 67

Mohanty, R. K. (2012). Fiscal deficit-economic growth nexus in India: A cointegration analysis. *New Delhi: Centre for Economic Studies & Planning, School of Social Sciences Jawaharlal Nehru University.*

Monograph

Nana Kwame Akosah, (2015) "Empirical appraisal of fiscal stability: the case of Ghana", *Journal of Economic Studies*, Vol. 42 Issue: 5, pp.753-779, <https://doi.org/10.1108/JES-03-2014-0045>

Nkalu, C. N., Edeme, R. K., & Nwosu, O. E. (2016). Does the Ricardian Equivalence Hypothesis  
Otani I, Villanueva D (1989) Theoretical aspects of growth in developing countries: external debt dynamic and the role of human capital. IMF staff paper, No. 36

Perreault, Thomas; Martin, Patricia (2005). "Geographies of neoliberalism in Latin America." *Environment and Planning A*, 37, p. 191-201.

Pesaran, B., & Pesaran, M. H. (2009). *Time Series Econometrics Using Microfit 5.0*. Oxford: Oxford University Press.

Quartey, P., Ackah, C., Dufe, G and Agyare-Boakye, E. (2012) Evaluation of the implementation of the Paris Declaration on aid effectiveness: Phase II. Ghana Country Report. University of Ghana: Institute of Statistical, Social and Economic Research

- Rahman, N. H. A. (2012). The relationship between budget deficit and economic growth from Malaysia's perspective: An ARDL Approach. In *International Conference on Economics, Business Innovation, IPEER* (Vol. 38, pp. 54-71).
- Ranis, G. (1985). Employment, Income Distribution and Growth in the East Asian Context; A Comparative Study, in Corbo, V. et al (ed) *Export-oriented development strategies*, Westview Press, Boulder and London.
- Renato, Aguilar (1986). "Latin American structuralism and exogenous factors." *Social Science Information*, 25(1) p. 227-290.
- Report of the Auditor-General on the Accounts of District Assemblies for the Financial Year Ended 31 December (2014)
- Romer, M. Paul. (1990). Endogenous Technological Change, *Journal of Political Economy*, 1990. Vol.98 No.5.
- S. Mukherjee / Import Substitution vs Export Orientation Trade and Development Review, Vol. 5, Issue 1, 2012, Jadavpu University.
- Sackey, Frank Gyimah, Compah-Keyeke, George, Nsoah, James, (2012), "Foreign Direct Investment and Economic Growth in Ghana", *Journal of Economics and Sustainable Development*, Vol.3, No.10, 2012
- Sadiq, T. (2010). The Causality between Revenues and Expenditure of the Federal and Provincial Governments of Pakistan. *The Pakistan Development Review*, 49(4), 651-662
- Saunders, M, Lewis, P., and Thornhill. (2009) *Research methods for business students*. Fifth Edition, Harlow: Pearson.
- Sekhri, S. (2009) "Dependency approach: Chances of survival in the 21<sup>st</sup> century," *African Journal of Political Science and International Relations*, 3:5, pp. 242-252.

- Shuman, M. H. (2006). *The Small-Mart Revolution: How Local Businesses are Beating Spending Buy Better Results in Education and Health Care? IMF Working Study 99/21*, Washington, International Monetary Fund.
- Stephen Nyarko (2014) Ghana's debts distress threatens economic livelihood its citizens.
- Street, James H.; James, Dilmus D. (1982). "Structuralism, and Dependency in Latin America." *Journal of Economic Issues*, 16(3) p. 673-689.
- Sun, X., (2002). *Foreign Direct Investment and Economic Development. What Do the State Need To Do? Marrakech, Morocco*
- Sun, Y. (2004), "External Debt Sustainability in HIPC Completion Countries," *Working Paper WP/04/160*, IMF, Washington, D.C.
- Tausch, A. (2010) "Globalization and development: the relevance of classical "dependency" theory for the world today," *International Social Science Journal*, 61:202, pp. 467-488.
- The Institute of Economic Affairs (2016) *Ghana's Debt Profile and Sustainability No.34 IEA*
- Tornell, A., and Lane, P. (1999). "The voracity effect", *American Economic Review*, 89, 22-46.
- Tsikata, G. K., and Amuzu, G. K. (1997). *Fiscal Development: Policies and Options in Nyanteng V.K (ed.) Policies and Options for Ghanaian Economic Development 2nd Edition*, Institute of Statistical, Social and Economic Research, University of Ghana.
- Von Hagen, J and Harden, I. (1995), *Budget Processes and Commitment to Fiscal Discipline*, *European Economic Review*, vol. 39, pp. 771-779.
- Von Hagen, J. (1992), *Budgeting Procedures and Fiscal Performance in the European Communities*, *Economic Papers*, No. 96.
- Von Hagen, J. (2005), *Political Economy of Fiscal Institutions, Governance and the efficiency of economic systems*, *GESY Discussion Paper No. 149*

- White, D. (2013) Tax Guide for Petroleum Operations in Ghana“ Price Water Coopers, Available at [www.pwc.com/gh](http://www.pwc.com/gh) (Accessed: 4th March, 2014)
- World Bank (2006). Global Development Finance: The Development Potential of Surging Capital Flows. The World Bank
- World Bank Country Report of Ghana (2016)
- World Bank Policy Research Working Paper, (2006).
- World Bank. (2016). *World development indicators on online (WDI) database*, Retrieved March 3, 2016, from World Bank: <http://www.worldbank.org>
- World Bank. (2011) *The Financial Development Report 2011*. New York: World Economic Forum USA Inc.
- Yeats, A. J. (1998), Just How Big is Global Production Sharing, Discussion Study 2004, World Bank, Washington, D. C.
- Yin R.K (2003). Case study research – Design and methods. 3rd edition. Sage Publications, Inc.
- Yin, R. K. (2011). *Qualitative Research from Start to Finish*. New York: Guilford Press.
- Yin, R.K. (2009) Case Study Research: Design and Methods. Fourth edition, Thousand Oaks, CA; Sage publications.
- Zacharias, N.T. (2012). *Qualitative Research Methods for Second Language Education: A Course book*. Newcastle: Cambridge.
- Zhang, J. and Zhu, T., (2015). Re-Estimating China's Underestimated Consumption Available at SSRN: <http://ssrn.com/abstract=2330698>

## APPENDIX A : SAMPLE QUESTIONNAIRE



### SAMPLE QUESTIONNAIRE

#### TOPIC: THE IMPACT OF FISCAL DISCIPLINE ON JOB CREATION

**Dear Sir/Madam,**

I am a student of Nobel International School pursuing PhD in Administration. I am conducting a research study on the topic' *The impact of fiscal discipline on job creation in Ghana*'.

The general objective of the study is to examine the relationship between fiscal discipline and job creation in Ghana and to proffer recommendations for improving job creation for the teeming youth. You have been selected to participate in this survey because of your ability to help provide the required information. I am aware that you are very busy, but I would be grateful if you could take time off your busy schedule to answer this questionnaire.

I am also sensitive of maintaining absolute confidentiality about your specific business operations. In this regard, I will treat your answers in the strictest confidence and use the information only for this research.

I would like to thank you in advance for your time and participation in this study.

**Charles Kwadwo Oppong**

**Doctorate Candidate**

**SECTION A: RESPONDENT’S BACKGROUND INFORMATION**

---

1. Gender            Male    [ ]            Female    [ ]
2. Age (years) Less than 30 [ ] 30-39    [ ]            40-49 [ ] 50 or above [ ]
3. Level of Education: None [ ] Primary [ ] Secondary [ ] Technical [ ] Tertiary [ ]
4. What position do you hold in your organization?.....
5. How long have you been working with your institution? Less than 5years [ ] Over 10 years [ ]
6. How familiar are you with fiscal discipline and job creation in Ghana?
  - a) Very Familiar
  - b) Not Very Familiar

	<b>FISCAL DISCIPLINE, BUDGET APPROVAL &amp; GOVERNMENT SPENDING</b>	1	2	3	4	5
7	Government has formal constraints (constitutional or legal) on aggregate spending and budget deficits.	[ ]	[ ]	[ ]	[ ]	[ ]
8	Budgetary constraints are imposed on budget and monitored by Parliament.	[ ]	[ ]	[ ]	[ ]	[ ]
9	Ghana develops its budget using a medium-term expenditure framework to project an aggregate expenditure ceiling over a three- to five-year horizon, consistent with the Macroeconomic targets.	[ ]	[ ]	[ ]	[ ]	[ ]
10	Government of Ghana overspends its annual budget	[ ]	[ ]	[ ]	[ ]	[ ]
11	Government for the past two years develops and submits supplementary budget in the middle of the year.	[ ]	[ ]	[ ]	[ ]	[ ]

12	The percentage budget deficit far outweighs what is proposed by the Cabinet and Parliament.	[ ]	[ ]	[ ]	[ ]	[ ]
13	Government employs fiscal rules imposed by the IMF on budget spending	[ ]	[ ]	[ ]	[ ]	[ ]
14	There is reconciliation between actual expenditures versus budgeted amounts.	[ ]	[ ]	[ ]	[ ]	[ ]
15	Capital expenditure forms only a small fraction of the entire Annual Budget	[ ]	[ ]	[ ]	[ ]	[ ]
16	Budget monitoring at the Ministry Departments and Agencies is weak.	[ ]	[ ]	[ ]	[ ]	[ ]
17	Government overspends its budget during election periods.	[ ]	[ ]	[ ]	[ ]	[ ]
18	Government transfers and poor timing of budget are the sources of fiscal indiscipline	[ ]	[ ]	[ ]	[ ]	[ ]

**SECTION B – FISCAL DISCIPLINE, BUDGET APPROVAL & GOVERNMENT SPENDING**

**SECTION C: THE ROLE OF FISCAL INSTITUTIONS IN MAINTAINING FISCAL DISCIPLINE**

*Using a scale of 1 – 5 [where 1=strongly disagree; 2=disagree; 3=neutral; 4=agree and 5=strongly agree], kindly indicate the extent to which you agree to each of the following statements indicated below relating to the role of fiscal institutions in maintaining fiscal discipline.*

	<b>THE ROLE OF FISCAL INSTITUTIONS IN MAINTAINING FISCAL DISCIPLINE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
19	The Ministry of Finance moderates government spending through effective planning and with fiscal rules.	[ ]	[ ]	[ ]	[ ]	[ ]
20	The presence of strong Fiscal Council will improve governance, ensure accountability and transparency in government spending	[ ]	[ ]	[ ]	[ ]	[ ]
21	The weak monitoring and implementation framework leads to excessive spending and borrowing	[ ]	[ ]	[ ]	[ ]	[ ]

22	Government submits supplementary budget to Parliament	[ ]	[ ]	[ ]	[ ]	[ ]
23	Government Transfers to Ministries, Departments and Agencies are not properly monitored and controlled	[ ]	[ ]	[ ]	[ ]	[ ]
24	Poor fiscal governance framework can have serious positive effect on the development of the budget processes and government spending in general	[ ]	[ ]	[ ]	[ ]	[ ]

## SECTION D – CHALLENGES FACING THE GOVERNMENT IN MAINTAINING FISCAL DISCIPLINE

Using a scale of 1–5 [where 1=strongly disagree; 2=disagree; 3=neutral; 4=agree and 5 =strongly agree], kindly indicate the extent to which you agree to each of the following statements indicated below concerning challenges facing the government in maintaining fiscal discipline.

	<b>CHALLENGES FACING THE GOVERNMENT IN MAINTAINING FISCAL DISCIPLINE</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
25	The presence of many interested parties seeking for social infrastructure and development across the country without paying tax (Common Pool Problem)	[ ]	[ ]	[ ]	[ ]	[ ]
26	Poor Tax Revenue Mobilization	[ ]	[ ]	[ ]	[ ]	[ ]
27	High Debt Burden (Ghana's debt to GDP is 73.2% as at December 2017 which constraints job creation)	[ ]	[ ]	[ ]	[ ]	[ ]
28	The implementation of IMF policy prescriptions that restrict government's ability to create jobs	[ ]	[ ]	[ ]	[ ]	[ ]
29	Unjustified government spending has led to excessive borrowing	[ ]	[ ]	[ ]	[ ]	[ ]
30	Weak procurement processes and procedures	[ ]	[ ]	[ ]	[ ]	[ ]
31	The lack of political commitment to spend in election years	[ ]	[ ]	[ ]	[ ]	[ ]

--	--	--	--	--	--	--	--	--	--

**SECTION E – THE ROLE OF GOVERNMENT IN CREATING JOBS**

Using a scale of 1 – 5[where1=strongly disagree; 2=disagree; 3=neutral; 4=agree and 5 =strongly agree], kindly indicate the extent to which you agree to each of the following statements indicated below concerning the role of the government in creating jobs in Ghana.

	<b>THE ROLE OF THE GOVERNMENT IN CREATING IN GHANA</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>32</b>	The government creates the enabling environment for businesses to thrive	[ ]	[ ]	[ ]	[ ]	[ ]
<b>33</b>	The government offers tax incentives to stimulate job creation	[ ]	[ ]	[ ]	[ ]	[ ]
<b>34</b>	Government supports firms and companies with Funding	[ ]	[ ]	[ ]	[ ]	[ ]
<b>35</b>	Government develops ample infrastructure to facilitate the growth of industry and companies	[ ]	[ ]	[ ]	[ ]	[ ]
<b>36</b>	Government has a deliberate policy on job creation( One District One Factory)	[ ]	[ ]	[ ]	[ ]	[ ]
<b>37</b>	The overall impact of the Youth in Agriculture Programme has been satisfactory	[ ]	[ ]	[ ]	[ ]	[ ]
<b>38</b>	Government to create new markets for companies to get access and expand business / Sales Networks.	[ ]	[ ]	[ ]	[ ]	[ ]
<b>39</b>	The government through its programmes has created jobs for the youth in Ghana	[ ]	[ ]	[ ]	[ ]	[ ]
<b>40</b>	The promotion of a broader-based industrialization path characterized by greater levels of participation of the Private Sector	[ ]	[ ]	[ ]	[ ]	[ ]
<b>41</b>	Government offers custom tariff incentives to private firms to boost export	[ ]	[ ]	[ ]	[ ]	[ ]

42	The government helps private sector firms to adhere to best corporate governance practice through training and development	[ ]	[ ]	[ ]	[ ]	[ ]
----	--	-----	-----	-----	-----	-----

## SECTION F – NEW JOBS CREATED IN THE FORMAL SECTOR FROM 2017 TO 2018

Using estimates, kindly indicate the jobs created by formal sector of the Ghanaian economy.

NEW JOBS CREATED BY SECTOR (FORMAL SECTOR)						
43	Please indicate the jobs created in these sectors by the government of Ghana from 2017 to 2018					
a	Manufacturing					
b	Agriculture					
c	Retail Sector					
d	Mining					
e	Financial Sector					
f	Construction					

## SECTION G. NEW JOBS CREATED BY THE PRIVATE SECTOR COMPANIES AND FIRMS (AGI AND PRIVATE ENTERPRISE FEDERATION) FROM 2017 TO 2018

Using estimates, kindly indicate the jobs created by the private sector companies in Ghana, Chinese companies and the IMF programme respectively.

NEW JOBS CREATED BY THE PRIVATE SECTOR COMPANIES AND FIRMS (ASSOCIATION OF GHANA INDUSTRIES AND PRIVATE ENTERPRISE FEDERATION)						
44	Please indicate the jobs created in these sectors by private firms and companies from (2017 to 2018)					
a	Manufacturing sector					
b	Agriculture sector					

c	Retail Sector/General Trading						
d	Mining						
e	Financial Sector						
f	Construction						

<b>THE BEIJING CONSENSUS AND ITS IMPACT ON FISCAL DISCIPLINE AND JOB CREATION IN GHANA</b>	
<b>Please indicate the impact of BEIJING CONSENSUS on job in Ghana</b>	
a)	
b)	
c)	
d)	
e)	
<b>NEW JOBS CREATED BY THE CHINESE COMPANIES IN GHANA (FROM 2017 TO 2018)</b>	
<b>45</b>	<b>Please indicate the jobs created by the Chinese in these sectors of the Ghanaian economy</b>
a	Manufacturing sector
b	Agriculture sector
c	Retail Sector/General Trading
d	Mining
e	Financial Sector
f	Construction

	<b>THE WASHINGTON CONSENSUS AND ITS IMPACT ON FISCAL DISCIPLINE AND JOB CREATION IN GHANA</b>	
	<b>Please indicate the impact of IMF programmes on job in Ghana</b>	
a)		
b)		
c)		
d)		
e)		
a)		
	<b>NEW JOBS CREATED THE IMF(FROM APRIL 2015-APRIL 2019)</b>	
<b>46</b>	<b>Please indicate the jobs created by the IMF programme in these sectors of the Ghanaian economy</b>	
a	Manufacturing sector	
b	Agriculture sector	
c	Retail Sector/General Trading	
d	Mining	
e	Financial Sector	
f	Construction	
	Using a scale of 1 – 5[where 1=strongly disagree; 2=disagree; 3=neutral; 4=agree and 5 =strongly agree], kindly indicate the extent to which you agree to each of the following statements indicated below concerning the role of FDI, local content and structural transformation in creating jobs in Ghana.	
	<b>SECTION H</b>	
<b>47</b>	<b>WHAT IS THE ROLE OF FOREIGN DIRECT INVESTMENTS IN JOB CREATION IN GHANA?</b>	

a	Through Business Promotion of Ghanaian goods and services abroad	[ ]	[ ]	[ ]	[ ]	[ ]
b	Through employment of the indigenous people through those companies who establish presence in Ghana	[ ]	[ ]	[ ]	[ ]	[ ]
c	Development of the local economy with foreign capital	[ ]	[ ]	[ ]	[ ]	[ ]
d	Foreign direct investments contribute to technology development in Ghana	[ ]	[ ]	[ ]	[ ]	[ ]
<b>48</b>	<b>WHAT IS THE ROLE OF LOCAL CONTENT (HOME GROWN POLICY IN JOB CREATION IN GHANA?)</b>	[ ]	[ ]	[ ]	[ ]	[ ]
a	Ghana Beyond Aid will play a key role in bringing Foreign Direct Investments to Ghana	[ ]	[ ]	[ ]	[ ]	[ ]
b	Home grown policy promotes inclusive economic growth	[ ]	[ ]	[ ]	[ ]	[ ]
c	Ghana's local content policy facilitates job creation for local firms and companies	[ ]	[ ]	[ ]	[ ]	[ ]
<b>49</b>	<b>STRUCTURAL ECONOMIC TRANSFORMATION</b>	[ ]	[ ]	[ ]	[ ]	[ ]
a	There is positive relationship between structural transformation and job creation	[ ]	[ ]	[ ]	[ ]	[ ]
b	Agriculture modernization has the tendency to create more jobs in Ghana since it contributes to about 35.2% of GDP.	[ ]	[ ]	[ ]	[ ]	[ ]
c	Ghana needs development in infrastructure to boost job creation	[ ]	[ ]	[ ]	[ ]	[ ]
d	Ghana needs to revitalize its industrialization policy to create more jobs	[ ]	[ ]	[ ]	[ ]	[ ]
e	Our Educational Institutions must be restructured to make courses more practical in order to match the skills required at the job market	[ ]	[ ]	[ ]	[ ]	[ ]
f	Ghana's manufacturing sector must be retooled to employ many of the unemployed youth in Ghana	[ ]	[ ]	[ ]	[ ]	[ ]

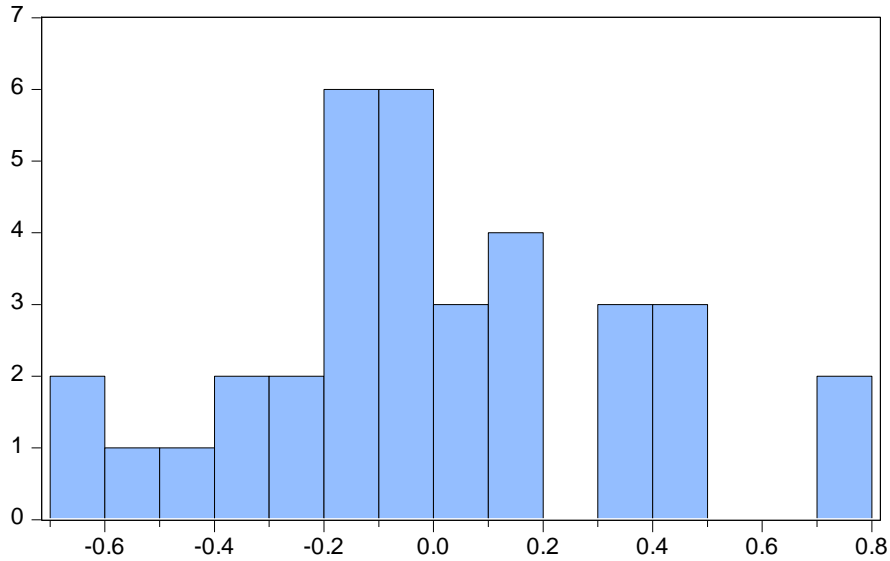
**50.** Please state some of the major challenges facing the government of Ghana in its efforts to maintain fiscal discipline and create jobs in Ghana.

-----  
-----  
-----

Thank you

## APPENDIX B: ARDL DIAGNOSTIC RESULTS

### Jarque-Bera Normality Test



Series: Residuals	
Sample 1985 2019	
Observations 35	
Mean	2.69e-15
Median	-0.023914
Maximum	0.727115
Minimum	-0.645700
Std. Dev.	0.331169
Skewness	0.212778
Kurtosis	2.856266
Jarque-Bera	0.294229
Probability	0.863195

### Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.843324	Prob. F(2,20)	0.4475
Obs*R-squared	2.353538	Prob. Chi-Square(2)	0.3083

### Test Equation:

Dependent Variable: RESID

Method: ARDL

Date: 07/26/21 Time: 15:55

Sample: 1984 2019

Included observations: 36

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
JCLOG(-1)	0.225723	0.238600	0.946032	0.3554
BDLOG	-0.028875	0.432184	-0.066813	0.9474
BDLOG(-1)	0.076736	0.455225	0.168567	0.8678
BDLOG(-2)	0.106855	0.466816	0.228902	0.8213
BDLOG(-3)	-0.083077	0.440264	-0.188698	0.8522
GRLOG	0.127906	0.340437	0.375712	0.7111
GRLOG(-1)	0.021555	0.302912	0.071159	0.9440
GS_LOG	-0.104105	0.379701	-0.274177	0.7868
MANULOG	-0.047082	0.167203	-0.281585	0.7812
PDLOG	0.141833	0.392439	0.361414	0.7216
PDLOG(-1)	-0.104131	0.495217	-0.210274	0.8356
PDLOG(-2)	-0.175238	0.512822	-0.341713	0.7361
PDLOG(-3)	-0.059803	0.326556	-0.183131	0.8565
C	-0.242063	1.332918	-0.181604	0.8577

RESID(-1)	-0.380643	0.346270	-1.099268	0.2847
RESID(-2)	-0.295764	0.310040	-0.953955	0.3515
R-squared	0.065376	Mean dependent var		-8.30E-16
Adjusted R-squared	-0.635592	S.D. dependent var		0.425356
S.E. of regression	0.543988	Akaike info criterion		1.921324
Sum squared resid	5.918465	Schwarz criterion		2.625110
Log likelihood	-18.58383	Hannan-Quinn criter.		2.166964
F-statistic	0.093265	Durbin-Watson stat		1.949198
Prob(F-statistic)	0.999987			

Ramsey RESET Test

Equation: UNTITLED

Specification: JCLOG JCLOG(-1) BDLOG BDLOG(-1) BDLOG(-2) BDLOG(-3) GRLOG GRLOG(-1) GS\_LOG MANULOG PDLOG PDLOG(-1) PDLOG(-2) PDLOG(-3) C

Omitted Variables: Powers of fitted values from 2 to 3

	Value	df	Probability
F-statistic	0.753839	(2, 20)	0.3967

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.177799	2	0.088899
Restricted SSR	6.332456	22	0.287839
Unrestricted SSR	6.154657	20	0.307733

Unrestricted Test Equation:

Dependent Variable: JCLOG

Method: ARDL

Date: 07/26/21 Time: 15:58

Sample: 1984 2019

Included observations: 36

Maximum dependent lags: 3 (Automatic selection)

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (3 lags, automatic):

Fixed regressors: C

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
JCLOG(-1)	-2.331850	7.849681	-0.297063	0.7695
BDLOG	-0.304405	0.753476	-0.404000	0.6905
BDLOG(-1)	3.705391	12.19998	0.303721	0.7645
BDLOG(-2)	-1.719112	5.986404	-0.287169	0.7769
BDLOG(-3)	2.719852	9.158695	0.296969	0.7696
GRLOG	0.283843	0.912393	0.311098	0.7589
GRLOG(-1)	1.687027	5.513213	0.305997	0.7628
GS_LOG	-1.972895	6.845806	-0.288190	0.7762
MANULOG	-0.372058	1.307809	-0.284490	0.7790
PDLOG	-0.343175	1.087082	-0.315684	0.7555
PDLOG(-1)	-0.382245	1.523253	-0.250940	0.8044
PDLOG(-2)	-2.971911	9.884166	-0.300674	0.7668
PDLOG(-3)	2.812186	9.541306	0.294738	0.7712

C	9.347608	30.84204	0.303080	0.7650
FITTED^2	1.285713	3.028085	0.424596	0.6757
FITTED^3	-0.110060	0.235169	-0.468005	0.6448
R-squared	0.740546	Mean dependent var		4.497882
Adjusted R-squared	0.545956	S.D. dependent var		0.823262
S.E. of regression	0.554737	Akaike info criterion		1.960456
Sum squared resid	6.154657	Schwarz criterion		2.664242
Log likelihood	-19.28821	Hannan-Quinn criter.		2.206096
F-statistic	3.805668	Durbin-Watson stat		2.318184
Prob(F-statistic)	0.003080			

\*Note: p-values and any subsequent tests do not account for model selection.

#### Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.959542	Prob. F(13,22)	0.5255
Obs*R-squared	11.88453	Prob. Chi-Square(13)	0.5371
Scaled explained SS	6.779246	Prob. Chi-Square(13)	0.9132

#### Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 07/26/21 Time: 15:56

Sample: 1984 2019

Included observations: 36

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.887468	0.779351	1.138728	0.2671
JCLOG(-1)	0.023538	0.084732	0.277791	0.7838
BDLOG	0.210826	0.255303	0.825787	0.4178
BDLOG(-1)	0.521480	0.266159	1.959279	0.0629
BDLOG(-2)	-0.395709	0.270875	-1.460859	0.1582
BDLOG(-3)	0.016294	0.255831	0.063689	0.9498
GRLOG	0.254380	0.190618	1.334504	0.1957
GRLOG(-1)	0.014981	0.178905	0.083739	0.9340
GS_LOG	0.001735	0.215385	0.008056	0.9936
MANULOG	-0.175456	0.095787	-1.831726	0.0806
PDLOG	0.123619	0.220951	0.559489	0.5815
PDLOG(-1)	-0.366452	0.286608	-1.278580	0.2144
PDLOG(-2)	-0.333656	0.288892	-1.154951	0.2605
PDLOG(-3)	0.330066	0.190838	1.729562	0.0977

R-squared	0.330126	Mean dependent var	0.175902
Adjusted R-squared	-0.065709	S.D. dependent var	0.311804
S.E. of regression	0.321885	Akaike info criterion	0.856056
Sum squared resid	2.279419	Schwarz criterion	1.471869
Log likelihood	-1.409015	Hannan-Quinn criter.	1.070992
F-statistic	0.833999	Durbin-Watson stat	2.335943
Prob(F-statistic)	0.623926		