Centre of Full Employment and Equity

Working Paper No. 20-01

Preface for Africa's Last Colonial Currency (Fanny Pigeaud and Ndongo Samba Sylla), Pluto Books 2020

William Mitchell[1]

February 2020

Centre of Full Employment and Equity
The University of Newcastle, Callaghan NSW 2308, Australia
Home Page: http://e1.newcastle.edu.au/coffee
Email: coffee@newcastle.edu.au

1. Introduction

Metropolitan France was torn in 2019 by the uprising of the *gilets jaunes*, who give credence to the prediction made by Christian Guilluy in his 2016 book *Le crépuscule de la France d'en haut* that there would be a "modern slave rebellion" against low pay, high unemployment, and high taxation, all of which has spawned rising inequality and a depressed material outlook among the working class in "La France périphérique".

Guilluy's culprits are the "bourgeois-bohèmes" or "bobos", the urban elites who have "supported the economic policies of the upper class for 30 years now", which reward them with well-paid employment, superior status, rising wealth through housing price inflation, often through the gentrification of traditional working class suburbs, access to a diversity of cultural pursuits and more. While they have embraced globalism, the 'working class', who live and struggle outside the "new citadels", have increasingly been left behind.

To accentuate the divide, these global beneficiaries adopt a rather schizoid attitude to the disadvantaged. The 'bobos' speak of international solidarity, and advance, "the Kantian dream of cosmopolitan republicanism" (Harvey, 2000). But then, as if forgetting their bountiful faith in humanity, they accuse those who support Brexit or the breakup of the EU, for example, as being 'particularists', racists, xenophobes, nationalists, who have abandoned their moral responsibilities to a greater humanity. This disdain soon morphs into accusations about fascism and the like.

Guilluy's thesis helps us understand how the disdain for Brexit among the urban, educated elites, who otherwise advocate progressive policies, compromised the British Labour Party so much, that it reneged on its promise to support the June 2016 Referendum and suffered catastrophic damage to its electoral standing.

La France périphérique is in rebellion, albeit somewhat disorganised. But the shift in outlook is undeniable. And it has been exacerbated and engendered by the fact that the traditional political voices of the working class, the Socialist Party, has been complicit in introducing policies that have worsened the divide.

These trends illustrate how neoliberalism has evolved. Our meaning of the term 'periphery', which entered the lexicon via world systems theory, has evolved. The underlying neoliberal ideology that has created these urban-regional divides in our advanced nations in recent decades is, in fact, an advanced expression of the earlier extractive mechanisms that the wealthy have used for centuries to further their ambitions through invasion and occupation (colonialism). In that context, the 'periphery' referred to the less developed nations who were functionally related to the 'core' nations, where wealth and economic power was concentrated.

A question I asked when I started working as a development economist was: Why are African nations so poor, when they possess massive resource wealth and burgeoning populations, that would achieve high levels of education and skill development in advanced nations?

The traditional theory of economic development (modernisation theory) suggested that nations begin as undeveloped, primitive societies, and through industrialisation and development of governance institutions, transcend to developed status. A middle-class forms as incomes grow and an export-orientation is then encouraged.

Accordingly, impoverished Africa requires interventions from advanced nations to make it rich. But the rival Dependency theory, considers Africa to be 'rich' with its assets being continually drained to the benefit of core wealthy nations.

Dependency theory was developed to articulate this extractive process. We learn that the 'core' is reliant on exploiting resource flows from the 'periphery'. The rich nations do not invest in income poor nations to make them richer. This extractive process is necessary for the continued material prosperity of the 'core' nations and the prevention of realisation crises. The exploitation evolved over time from brutal slavery regimes to more sophisticated and less obvious means of maintaining political and economic servitude.

In his 1967 book *Capitalism and Underdevelopment in Latin America*, Andre Gunder Frank, a fierce critic of the free market approach espoused by his mentor Milton Friedman, argued that the nations that we now consider to be developed were never 'undeveloped' in the way we view African nations. Rather, the nations that are called undeveloped have a unique role in the world system unlike anything that the rich countries have ever played. He argued (1966: 20) that the underdeveloped nations serve "as an instrument to suck capital or economic surplus out of ... [the] ... satellites and to channel ... this surplus to the world metropolis".

What the mainstream considers to be a rather benign supportive role being played by the colonialist, is better seen as rich nations establishing processes (supported by institutions such as the IMF and the World Bank) to ensure that resources flow to the benefit of the advanced world. These processes, which include legal frameworks, tax rules, privatisation, and the imposition of fiscal austerity, undermine the opportunities of the 'income poor' nations to benefit from their own resource riches. The middle-class that forms work with the localised upper class to drain the resources in favour of the richer nations even more efficiently.

2. Colonisation and decolonisation

The *Scramble for Africa* carved up Africa among the advanced powers after they had successfully invaded the continent. A.G. Hopkins (1993) talks of the "plunderers" who depicted the Africans as "being primitive and barbaric", which was a convenient smokescreen to legitimatise the invasions.

The sense of plundering chaos reached such levels in the early 1880s that war between the colonial claimants was seemingly inevitable. Britain and France, for example, were at odds over their claims in West Africa. The likely conflicts prompted Count Bismarck to organise - *The Berlin Conference* in 1884 to provide a European-centric framework to regulate the 'Scramble' and the resulting trade. Most European nations were represented, but the people of Africa were completely ignored. It was as if they were inanimate objects in the colonial quest for wealth and 'gloire'.

The agreed partition of Africa provided rather orderly circumstances for the colonial extractive mechanism to operate. For many years, the colonies enriched the metropolitan economies. But the pressures to decolonise were evident even "before the colonial conquests had been completed" (Birmingham, 1995:3). These pressures mounted after the Second World War, with Britain leading the way, although very few nations let go without being involved in violent struggles with local independence movements. Over time, it became obvious to all that "the old colonial nexus was not viable, nor indeed necessary to metropolitan interests" (Birmingham, 1995: 4).

After failing to stem the Algerian independence movement, which led to the demise of the Fourth Republic in 1958, the new President, Charles de Gaulle immediately offered the colonial elites in their colonies, a 'loaded' independence deal, which would continue to tie the new nations to France. The elites saw their own interests more aligned with France than the fortunes of their people. This was at a time when France was undergoing reconstruction after its economy had been devastated in WWII and it needed the resource wealth in its colonies. Its currency was weak and so it had to work out a way to continue extracting that wealth on favourable terms.

3. The CFA franc

Currency arrangements established by the colonial powers have been a crucial part of this process. Modern Monetary Theory (MMT) shows that a currency is intrinsically related to the way the government is able to shift productive resources from the non-government sector to the public sector in order to fulfill its socio-economic mandate. In the context of colonial, and then neo-colonial relations, currency arrangements also served to facilitate the transfer of wealth from colonies to the metropolis.

During the colonial era, local producers were forced to trade under exclusive arrangements, which favoured the colonialist. Colonies were forced to take on debt at punitive rates and default led to disastrous compensations being enforced by the bankers.

The situation hardly changed after independence, which hampered the ability of the newly independent states to foster industry. Trade with Europe required an infrastructure (transport, legal services, insurance services, etc) that the new states did not control and were forced by the metropolis to pay hefty contract fees.

The direct-rule colonial arrangements were thus replaced by *Françafrique*, the political and economic framework for control and exploitation. As a key part of this strategy, the French introduced a common currency in 1945 for several African colonies - the CFA franc ('franc de la Communauté Financière Africaine'). The official French government line was that the currency would protect the colonies from inflation arising from the devalued French franc, a consequence of the devastation experienced during WWII.

Despite this maintained air of benevolence, the CFA franc has, according to Fanny Pigeaud and Ndongo Samba Sylla, maintained a "diabolical" system of exploitation and serves to guarantee "France's economic control of the colonies" and facilitate "their wealth's drainage towards the then economically fragile metropole."

They write that the CFA franc:

> ... is the most powerful weapon of the 'Françafrique', this peculiar neocolonial system of domination that the French state established on the eve of the independence of the former colonies, with the precise aim of preserving the advantages of the colonial pact.

The CFA franc is issued in two currency blocks by separate central banks - Banque Centrale des États de l'Afrique de l'Ouest (BCEO) and the Banque des États de l'Afrique Centrale (BEAC). The French can veto their decisions and monetary policy is set by the ECB (previously the Banque de France). The settings reflect European priorities.

The CFA franc is pegged against the euro (previously the French franc) and the French Treasury guarantees convertibility with the euro. The 'cost' for this guarantee is that the

BCEO and the BEAC have to deposit 50 per cent of their foreign reserve holdings with the Treasury, receiving low returns (sometimes even negative real returns). This control of reserves means all cross-currency transactions involving the CFA Franc have to be mediated by the Treasury.

4. The creeping neoliberalism in the pre-euro years

Things didn't improve for the former African colonies after France joined the Eurozone. In fact, a nasty cocktail has emerged with the on-going currency arrangements, merging with the neoliberal austerity bias of the Eurozone to further limit hopes for African prosperity. The unseemly colonial resource grab thus morphed, later, into a neoliberal regime that maintained the extraction mechanisms and increased inequality. But it was a creeping process.

On May 28, 1975, 15 Western African nations established the Economic Community of West African States (ECOWAS) after signing the Treaty of Lagos. The process that followed had the fingerprints of the Europeans all over it. The intent was to create a West African clone of the European economic and monetary union "with a mandate of promoting economic integration in all fields of activity of the constituting countries". But the region has been burdened by high unemployment and rising poverty rates.

ECOWAS initially proposed to introduce a single currency across the entire region. The integration plans mirrored the sorts of debates that were going on in Europe. As in the latter case, little agreement could be reached on a specific implementation plan.

In 1987, ECOWAS launched the "ECOWAS Monetary Cooperation Programme (EMCP)", reasserting the aim to introduce a common currency for all Member States by 2000. Little progress had been made by 1999. The 2000 Accra Declaration in 2000 proposed a new currency merger with six non-CFA franc nations and the creation of the West African Monetary Zone (WAMZ).

As in the Maastricht process, all the major questions that should have been posed and answered were largely avoided. The independent research studying the ECOWAS proposal was not supportive (see Bayoumi and Ostry, 1997; Debrun *et al.,* 2010). But just as the European Commission ignored advice that the proposed Eurozone would not constitute an optimal currency area, ECOWAS also ignored the same reality.

By pushing ahead with the so-called convergence criteria, ECOWAS introduce an austerity bias, in the same way that the Eurozone Member States had done in the 1990s. In trying to meet the convergence criteria, GDP growth fell sharply, and unemployment remained at elevated levels as fiscal austerity did its work, as expected. As a result of the on-going failure to meet the criteria, ECOWAS regularly pushed out the planned introduction date - first 2000, 2005, 2010, 2014, 2015 and now January 2020.

In June 2019, despite a senior ECOWAS official describing the situation as "dismal", ECOWAS agreed to launch a new currency, the Eco in January 2020. It will be the CFA franc by another name - pegged against the euro at a rate largely set by France, who will retain the control of convertibility with the euro.

Plus ça change, plus c'est la même!

President Macron recently announced that the CFA franc would be terminated and replaced with a new currency called the "Eco", which was a ploy by France to maintain control of the Eco process to ensure it remains part of the on-going extractive mechanism. And the Ivory Coast President who is supporting Macron in trying to break the ECOWAS grip on the process, wants to alter his nation's constitution to allow him to retain office. He hopes France will support that plan.

The introduction of the Eco will change very little.

5. Free trade agreements and West Africa

Colonial oppression of West Africa will also continue through the proposed ‘free trade agreement’ (EPA) between the EU and West African nations. Not content to ruin the prosperity in the Eurozone, the EU has pressured some of the poorest nations in the world to adopt the same sort of failed monetary and fiscal arrangements and then and then sign 'free trade' agreements which will accelerate the extraction process.

The EPA is biased against development by design. CONCORD (2015:6) concluded that the EU negotiated the EPA to benefit Europe and West African nations would be pressured to make heavy cuts to public spending, which currently supports “the building of schools and hospitals, support for family farming, and other public services”.

What institutions like the European Commission, the IMF or the World Bank never admit is that the advanced nations of the world today could never have become wealthy following the strategies that they now force on to the poor nations through these arrangements. Protection from external competition, use of regulation, and continued fiscal support to develop infrastructure, education and health services is essential for the development process. This is the very antithesis of the EPA approach.

When the African nations demurred, the European Union (CONCORD, 2015:3) “threatened all the non-LDC ACP countries with loss of free access to the European market”. Many West African nations succumbed and signed the deal. Nigeria, the largest economy, remains “opposed to the agreement ... in order to protect national industries and to create local jobs for young people” and understands that it would not have legislative independence to determine its own strategy under the EPA.

6. Conclusion

Fanny Pigeaud and Ndongo Samba Sylla also provide readers with a progressive alternative, which mirrors MMT insights, in highlighting the “big advantage” that a state enjoys if it has “its own sovereign currency”.

References

T. Bayoumi, T. and Ostry, J.D. (2010) ‘Macroeconomic shocks and trade flows within Sub-Saharan Africa: implications for optimum currency arrangements’, *Journal of African Economics*, 6(3), 412-444.

Birmingham, D. (1995) *The Decolonization of Africa*, Routledge, London.

CONCORD (2015) ‘The EPA between the EU and West Africa: Who benefits?’’, *Spotlight Report 2015 Policy Paper*.

Debrun, X., Pattillo, C.A., and Masson, P.R. (2010) ‘Should African Monetary Unions Be Expanded? An Empirical Investigation of the Scope for Monetary Integration in Sub-Saharan Africa’, *IMF Working Paper No.10/157*. July.

Gunder Frank, A. (1967) *Capitalism and Underdevelopment in Latin America*, NYU Press, New York.

Harvey, David (2000) ‘Cosmopolitanism and the Banality of Geographical Evils’, *Public Culture*, 12(2), 529-564.

Hopkins, A.G. (1993) 'Blundering and Plundering: The Scramble for Africa Relived', *The Journal of African History*, 34(3), 489-494.

[1] The author is Professor of Economics and Director of Centre of Full Employment and Equity at the University of Newcastle, Australia and Docent Professor of Global Political Economy, University of Helsinki, Finland.