Revisiting African Monetary Integration through the Work of Joseph Pouemi

Francisco Perez
Visiting Lecturer,
Trinity College, USA

Introduction

Monetary integration is a long-held Pan-Africanist goal. The Economic Community of West African States committed in 1975 to creating a regional single currency, and the Organization of African Unity agreed in 1991 to the goal of a single continental currency (Asongu, Nwachukwu and Tchamyou 2017). East African governments vowed in 2013 to revive and expand the East African shilling. Yet there has been growing opposition to one of the oldest monetary unions in Africa – indeed the world – the CFA franc zone. The announcement in December 2019 by Presidents Macron of France and Ouattara of Côte d'Ivoire to reform the CFA franc and rename it the eco has sparked debates over whether monetary unions are conducive to growth and broad prosperity, and what kind of monetary unions have been or could be successful in Africa. The proposed reforms do not address the most important criticism of the CFA franc made by economists: its peg to the euro – previously the French franc. Critics of the peg to the euro have called either for a 'nationalist exit', where each government in the CFA zone would create its own domestic currency and let its exchange rate with its neighbours float, or a 'Pan-Africanist exit' where members would keep some form of monetary union but cuts ties to the French government (Nubukpo, Ze Belinga, Tinel et al. 2016; Pigeaud and Sylla 2021).

The writings of the Cameroonian Joseph Tchundjang Pouemi (1937–84), one of the few economists to theorise money from an African perspective, can help elucidate these debates (2000 [1980]). Pouemi is a precursor of theories of financial dependence (Vernengo 2006; Koddenbrock and Sylla 2019). Writing during the turbulent 1970s when discussions over the structure of the international monetary system and its reform were pressing and lively (Eichengreen 2019), Pouemi argues for eliminating the fixed exchange rate to the French franc and for greater monetary cooperation among African governments. Pouemi dismisses the domi-

nant approach to the feasibility of international monetary integration, the theory of optimum currency areas (OCAs), for naively ignoring the political factors that are essential to forming and sustaining monetary unions. Studies based on this approach tend to doubt the viability of existing and proposed monetary unions in Africa (Debrun, Masson and Pattillo 2005; Masson and Pattillo 2005; Qureshi and Tsangarides 2006; Zhao and Kim 2009; Debrun, Masson and Pattillo 2011; Asongu, Nwachukwu and Tchamyou 2017).

Instead, Pouemi contends that monetary integration in Africa is necessary but for different reasons than in Europe. The goal of regional economic integration in Africa is to create larger domestic markets that allow for the exploitation of increasing returns to scale in many productive sectors. He also addresses the objections to African monetary integration: first, that African countries trade little with another; second, that monetary unification should be the last step in a process of economic integration; and, third, that monetary unions would be dominated by regional powers like Nigeria.

Finally, he explains that building a viable monetary union requires policy coordination and solidarity among states; in other words, it is primarily a political project. CFA governments could keep a single currency, but as the experience of the Eurozone has demonstrated, to make it a successful vehicle for high growth and convergence among members would require greater political and fiscal integration (Stiglitz 2016; Varoufakis 2016; Perez 2018). Given how difficult such political unity has proven, Pouemi advocates for a looser agreement, like the European Monetary System of the 1980s with each country having its own currency that is pegged at a fixed, but adjustable, rate to that of other members. He also advises governments to pool their reserves, both as a way of economising on them by avoiding the use of foreign exchange in payments among themselves, and as a form of risk-sharing and mutual aid.

Ending French Tutelage

Pouemi is a harsh critic of the CFA franc since it entails abandoning an autonomous monetary policy and the need to restrict commercial bank credit to maintain the fixed exchange rate to the French franc/euro (2000: 100). He insists that the CFA franc is simply the French franc (FF) in disguise: 'Only one currency circulated in the colonial empire. That here or there it carried different names changes nothing: the Djibouti dollar is well and truly the French franc, the CFA as well. Nigerian pounds or those of the Gold Coat were nothing but the pound sterling. The colonial monetary zone is a single currency zone' (*ibid*.: 156).[1] While many African governments have abused their ability to create money at will, no country has achieved industrialisation without development-oriented monetary and credit policies (Epstein 2013; Pérez 2021). An independent monetary policy is a necessary, if not sufficient, condition for economic development.

Pouemi maintains that high unemployment and underemployment are proof that there is insufficient domestic credit – or that it has been misallocated. Therefore, if '[t]he solidity of the CFA franc is based on restricting M [the money supply], a restriction not desired by the states, but one proceeding from the very architecture of the zone' (Pouemi 2000: 100)[2] then the peg to the euro is a brake on the growth of output and employment. Economic performance in the CFA zone has been slower than other African countries (Pigeaud and Sylla 2021), with lower levels of financial development as well (Ghura, Kpodar and Singh 2009).

If monetary union with Europe – in the form of the fixed exchange rate to the euro – hinders economic development in West and Central Africa, what are the effects of sharing the same currency – the ultimate form of monetary union – with other African governments? Should governments in the CFA zone create their own currencies or should they keep their single currency after jettisoning the peg to the euro?

Optimum Currency Areas

Following the seminal work of Robert Mundell (1961), conventional economists tend to focus on whether African monetary unions – either existing ones like the CFA franc or proposed ones like the East African shilling and eco – form 'optimum currency areas' (Debrun, Masson and Pattillo 2005; Masson and Pattillo 2005; Qureshi and Tsangarides 2006; Zhao and Kim 2009; Debrun, Masson and Pattillo 2011; Asongu, Nwachukwu and Tchamyou 2017). Mundell (1961) emphasises that regions that are most similar in their response to shocks are an OCA, and that factor (labour and capital) mobility is necessary for fast adjustment. For two or more regions to comprise an OCA, Mundell argues, they must not face asymmetrical or asynchronous shocks. He assumes that wages and prices adjust slowly, while exchange rates move quickly to achieve external balance. If a shock – for instance, an increase in the price of a key import – affects the entire region in a similar way then a common monetary policy is effective. But, if one region is experiencing an

economic boom while another is in recession, the monetary policy that is appropriate for one region may not be best for the other. In that case it is more efficient for each region to maintain a flexible exchange rate with the others.

Imbalances between regions, however, are the norm; no relatively large economic area is ever entirely homogeneous. In face of asymmetric shocks, Mundell stresses the importance of factor mobility – especially labour – across the currency area. For adjustment to happen smoothly, workers should be able to move easily from areas of high unemployment to low unemployment, capital from depressed areas to booming ones, and goods from regions where prices are lower to those where they are higher. Factor mobility should therefore determine currency borders. Ideally, factors should be (relatively) mobile within OCAs and immobile across them (Mundell 1961: 661; Perez 2018).

Pouemi rejects the theory of optimum currency areas as too academic, since it ignores the political factors which predominate in the formation and durability of monetary unions. He states bluntly: 'The issue of the optimality of currency areas will not be approached here since it is an example of those theories so abstract that they are useless. Instead, and dismissing this deductive attitude that consists of taking a concept to see if reality satisfies, we will depart from the observation of Africa as it is, in the world as it is, to see what kind of monetary integration is likely to succeed' (2000, 229).[3] What determines whether countries decide to form a monetary union and stay in one is not how alike their economies are to those of their neighbours but their willingness to cooperate on monetary affairs. Countries wishing to join or deepen monetary union should therefore be evaluated primarily on 'solidarity' not 'similarity' criteria (Perez 2018).

Monetary Integration in Africa?

There are three arguments against monetary integration in Africa. First, that African countries trade too little with one another to benefit from reducing – or eliminating in case of a single currency – the risk of exchange rate volatility. Second, that a single currency should be the culmination of a process of regional economic integration, not one of the initial steps. Third, that smaller African countries should fear the domination of monetary unions by regional powers like Nigeria and South Africa.

Economists in the OCA tradition caution against monetary unions among African countries since they trade little with each other, but to Pouemi, one of the goals of monetary integration is precisely to promote regional trade to enlarge the size of the 'domestic' market. Greater economic integration is necessary since many – if not most – African economies are currently too small to achieve the economies of scale inherent in production in many industries. The presence of increasing returns to scale means that the production of certain goods and services will only happen if the domestic and export markets for them surpass certain thresholds for size. This implies that an industry either exists at a significant scale in a given country or it does not exist at all. For example, most countries simply do not have an automobile sector.[4] It does not make sense to build an automobile assembly factory in the Gambia to serve only the Gambian market, it is too small; such limited production would be inefficient. However, a Gambian automobile assembly factory exporting to the rest of ECOWAS is potentially viable.

Pouemi, therefore, stresses that the potential benefits and costs of monetary union are different for rich and poor countries. 'There is not only a difference of perception of the mechanisms of cooperation [between Europe and Africa] there's a difference of the conception of common life. Economic cooperation, as it is conceived in the industrialised West, is the Kennedy Round, North-South dialogue, the EEC [European Economic Community], etc., in other words, essentially "customs disarmament" or common defence; armament is the rule, disarmament the exception' (*ibid*.: 232).[5] In Africa, however, economic cooperation is a positive-sum game due to the opportunity it creates for achieving economies of scale in production. 'What we are witnessing', in Africa instead, is the search '*before trade*, of means of producing together, of uniting forces to set up production units as financially profitable as possible, it is true, but first of all economically useful and socially effective' (Pouemi 2000: 231).[6] The claim that monetary union leads to greater trade of goods and services is controversial, but there is some evidence that while trade among CFA zone members is low it would be even lower without the CFA franc as a single currency (Rose 2000; Rose and Honohan 2001; Nitsch 2002; Glick and Rose 2016).

Pouemi also questions the view that monetary integration should come last in the process of regional economic integration, following the same sequence as the European Union from a free trade zone to a customs union, to a common market and finally a monetary union. 'This view is not only imaginary,

it is practically non-verified …. Theoretically it is indefensible: a 10 per cent decrease in tariffs could be… offset by a devaluation of 10 per cent' (Pouemi 2000: 232).[7] Depending on regional political and economic circumstances, a customs union tariff reduction or a monetary union – fixed exchange rates – may be easier to form first, but the order is not as important as the need for governments to coordinate macroeconomic policies in either case. Given the different rationale for monetary unions in Africa compared to Europe and other high-income countries, it follows that *the sequence of regional economic integration would also be different*.

Pouemi dismisses arguments that Nigeria would dominate the proposed West African monetary union as part of the classic colonialist tactic of 'divide-and-conquer'. While he acknowledges that 'monetary union between unequal partners poses problems', these are 'only problems, open to solutions' (*ibid.* 233).[8] They do not make monetary integration impossible. As long as monetary integration in Africa remains a positive-sum game then Africans should seek to further it. African governments would not have to fear a loss of sovereignty since no 'currency would be the reserve of others. Each country would have its own central bank, free to conduct the policy that best suits the directives judged necessary by the government.' As Pouemi explains, 'The only loss of sovereignty following such a union would be the respect of the collective balance. It would not be appropriated by anyone; it would be at the service of all. It would be for that matter, less a loss of sovereignty than the collective discipline necessary to all communal life' (*ibid.*: 237).[9]

A Vision for African Monetary Integration

Pouemi emphasises that there are many possible forms of monetary integration 'from complete lack of any form of cooperation to the existence of a single currency. Any intermediate arrangement whereby the effects of a completely independent currency are diminished, and therefore approach those of a single currency' is a form of integration (*ibid.*: 230).[10] He advocates for an African monetary integration scheme with fixed exchange rates between members, reserve pooling, and a common unit of account – like the European Currency Unit that preceded the euro.[11] In addition, a common policy on capital controls or at least collective supervision of international capital flows would be established.

Fixed but adjustable exchange rates – as in the Bretton Woods or European Monetary Systems (Eichengreen 2019) – would allow each nation greater monetary and exchange rate policy autonomy than a single regional currency. 'Such a decision, simple, easy to take', Pouemi maintains, 'would give regional groupings more chance of success than a thousand intergovernmental conferences' (2000: 237).[12] Accordingly, he thinks the debate over whether the CFA franc is overvalued is misguided, since there is no *a priori* reason for all its members to have the same exchange rate. A single currency may become necessary if regional trade reaches a high level, or if there is a relatively large regional budget, but until then a well-managed fixed exchange rate system would deliver many of the same benefits.

Settling payments using a common unit of account instead of foreign exchange reserves would help economise on the latter. Western Europe's recovery after WWII when it – like much of the world – was suffering a 'dollar shortage' is partly due to the creation of a European Payments Union. Instead of settling all of their bilateral trade in US dollars (for example French importers paying for Belgian goods in dollars), members of the payments union agreed to settle only their multilateral balances in dollars (so the French would only transfer dollars to Belgium if they were in deficit to the payments union as a whole and the Belgians had a surplus). The West Africa Clearing House was established in Freetown in 1975 for this very purpose.

Moreover, Pouemi suggested that African governments with ample foreign reserves could lend them to those in need, potentially creating mutual gains. He gives the example of Gabon's massive trade surpluses after the Organization of Petroleum Exporting Countries' embargo of 1973 led to a steep rise in the price of oil. Gabon spent its reserves on imported consumption goods, and then quickly found itself in debt. Gabon was not able to productively absorb these surpluses in such a short period. At the same time, oil importing countries, like Zaïre and the Central African Empire, were experiencing large trade deficits. Pouemi suggests that the Gabonese could have lent their reserves to the governments of Zaïre and the Central African Empire and made a higher return than buying low-yielding American or European government bonds. The Zairean and Central African governments surely would have preferred borrowing dollars from Gabon at a lower rate than that offered by Western banks.

Conclusion

The CFA zone's current structure is modelled on the Eurozone's neoliberal vision of monetary unification (Pigeaud and Sylla 2021). While the free movement of capital, goods and labour – as stressed by the optimum currency areas literature – would help diffuse shocks through African monetary unions, without the ability to adjust exchange rates or have automatic fiscal transfers from surplus to deficit nations, African monetary integration could lead to divergence as in the Eurozone (Stiglitz 2016; Varoufakis 2016). Therefore, as the great Cameroonian theorist Joseph Pouemi reminds us, to reach its full potential, African monetary integration must be built on principles of independence, unity and solidarity.

Notes

1. 'Une seule monnaie circulait dans l'empire colonial. Qu'ici et là elle portât des noms différents n'y change rien : le dollar de Djibouti, c'était bel et bien le franc français ; le franc CFA aussi. Les livres nigérianes ou de la Gold Coast n'étaient que de la livre sterling. La zone monétaire coloniale est une zone à monnaie unique.'
2. 'la 'solidité' du franc CFA, elle est basée sur la restriction de M, restriction non pas voulue par les Etats, mais procédant de l'architecture même de la zone'.
3. 'Le problème de l'optimalité des zones monétaires ne sera donc pas abordé ici, parce qu'il est l'exemple de ces théories si abstraites qu'elles sont inutilisables. Au contraire, et écartant en cela l'attitude aprioriste qui consiste à prendre un concept pour voir si les réalités le satisfont, nous partirons de l'observation de l'Afrique telle qu'elle est, dans le monde tel qu'il est, pour essayer de dégager le type d'intégration monétaire qui a des chances de ne pas échouer.'
4. According to the International Organization of Motor Vehicle Manufacturers, only forty-one countries produced automobiles. Of those only four – Algeria, Egypt, Morocco and South Africa – are in Africa, with a combined production in 2019 smaller than that of Indonesia alone. See: https://www.oica.net/category/production-statistics/2020-statistics/.
5. 'Il n'y a pas qu'une différence de perception des mécanismes de la coopération, il y a une différence de conception de la vie en commun. La coopération économique telle qu'on la conçoit en Occident industrialisé, c'est le Kennedy Round, le dialogue Nord-Sud, la CEE, etc. c'est-à-dire essentiellement le "désarmement douanier" ou la défense commune ; l'armement est la règle, le désarmement l'exception.'
6. 'Ce à quoi on assiste, hélas ! timidement et de façon isolée, c'est la recherche *avant l'échange* de moyens de produire ensemble, d'unir les forces pour mettre sur pied des unités de production autant que possible financièrement rentables, c'est vrai, mais *d'abord* économiquement utiles et socialement efficaces.'
7. 'Cette vue n'est pas seulement imaginaire, elle est pratiquement non vérifiée .... Théoriquement, elle est indéfendable : une réduction des droits de douane de 10% peut être, quant à ses effets, annulée par une dévaluation de 10%.'
8. 'Cependant, il convient de le reconnaître, comme toute association l'union monétaire entre partenaires de taille très inégale pose des problèmes, mais seulement des problèmes, susceptibles de solutions.'
9. 'aucune monnaie ne serait l'instrument de réserves des autres. Chaque pays aurait sa banque centrale, libre de conduire la politique qui convient aux directives jugées nécessaires par le gouvernement. La seule perte de souveraineté consécutive à une telle union serait la contrainte du respect de l'équilibre d'ensemble. Elle ne serait appropriée par personne, elle serait mise au service de tous. Il s'agirait, au demeurant, moins d'une perte de souveraineté que d'une discipline collective inséparable de toute vie commune'.
10. 'Parler d'intégration monétaire, c'est, en réalité, évoquer une gamme infinie de situations allant de l'absence de toute forme de coopération à l'existence d'une monnaie unique. Tout arrangement intermédiaire par lequel les effets de la monnaie totalement indépendante sont amoindris, et par conséquent ceux d'une monnaie commune approchés, est une intégration.'
11. The Franco-Egyptian economist Samir Amin made a similar reform proposal, see Sylla (2021).
12. 'Une telle décision, simple, facile à prendre, donnerait aux regroupements régionaux plus de chances de succès que mille conférences intergouvernementales.'

References

Asongu, S., Nwachukwu, J., and Tchamyou, V., 2017, 'A literature survey on proposed African monetary unions', *Journal of Economic Surveys* 31 (3): 878–902.

Debrun, X., Masson, P. R., and Pattillo, C., 2011, 'Should African monetary unions be expanded? An empirical investigation of the scope for monetary integration in sub-Saharan Africa', *Journal of African Economies* 20 (Suppl. 2): ii104–50.

Debrun, X., Masson, P., and Pattillo, C., 2005, 'Monetary union in West Africa: who might gain, who might lose, and why?', *Canadian Journal of Economics/Revue Canadienne d'Economique* 38 (2): 454–81.

Eichengreen, B., 2019, *Globalizing Capital: A History of the International Monetary System – Third Edition*, Princeton, NJ: Oxford: Princeton University Press.

Epstein, G., 2013, 'Developmental central banking: winning the future by updating a page from the past', *Review of Keynesian Economics* 1 (3): 273–87.

Ghura, D., Kpodar, K., and Singh, R. J., 2009, 'Financial deepening in the CFA franc zone: the role of institutions', *IMF Working Papers* 09 (113): 1.

Glick, R., and Rose, A. K., 2016, 'Currency unions and trade: a post-EMU reassessment', *European Economic Review* 87 (August): 78–91.

Koddenbrock, K. and Sylla, N. S., 2019, 'Towards a political economy of monetary dependency: the Case of the CFA franc in West Africa', *MaxPo Discussion Paper*, Max Planck Sciences Po Center on Coping with Instability in Market Societies, 19 (2).

Masson, P. R. and Pattillo, C. A., 2005, *The Monetary Geography of Africa*, Washington, DC: Brookings Institution Press.

Mundell, R., 1961, 'A theory of optimum currency areas', *American Economic Review* 51 (4): 657–65.

Nitsch, V., 2002, 'Honey, I shrunk the currency union effect on trade', *World Economy* 25 (4): 457–74.

Nubukpo, K., Belinga, M. Z., Tinel B., and Dembélé, D. M., 2016, *Sortir l'Afrique de la servitude monétaire: à qui profite le franc CFA?*, La Dispute.

Perez, F., 2018, 'Solidarity vs similarity: the political economy of currency unions', *The Political Economy of International Finance in an Age of Inequality*, November, https://www.elgaronline.com/view/edcoll/9781788972628/9781788972628.00019.xml.

Perez, F., 2021, 'East Asia has delinked – can Ethiopia delink too?', *Review of African Political Economy* 48 (167): 102–18.

Pigeaud, F., and Sylla, N. S., 2021, *Africa's Last Colonial Currency: The CFA Franc Story*. Translated by Thomas Fazi, London: Pluto Press.

Pouemi, J. T., 2000 [1980], *Monnaie, servitude et liberté*, Paris: Menaibuc.

Qureshi, M. S., and Tsangarides, C. G., 2006, 'What is fuzzy about clustering in West Africa?', *IMF Working Papers* 06 (90): 1.

Rose, A. K. 2000, 'One money, one market: the effect of common currencies on trade', *Economic Policy* 15 (30): 8–0.

Rose, A. K. and Honohan, P., 2001, 'Currency unions and trade: the effect is large', *Economic Policy* 16 (33): 433+449–461.

Stiglitz, J. E., 2016, *The Euro: How a Common Currency Threatens the Future of Europe*. First Edition, New York: W. W. Norton & Company.

Sylla, N. S., 2021, 'Fighting monetary colonialism in Francophone Africa: Samir Amin's contribution', *Review of African Political Economy* 48 (167): 32–49.

Varoufakis, Y., 2016, *And the Weak Suffer What They Must? Europe's Crisis and America's Economic Future*, New York: Nation Books.

Vernengo, M., 2006, 'Technology, finance, and dependency: Latin American radical political economy in retrospect', *Review of Radical Political Economics* 38 (4): 551–68.

Zhao, X., and Kim, Y., 2009, 'Is the CFA franc zone an optimum currency area?', *World Development* 37 (12): 1877–86.

FORTHCOMING / À PARAÎTRE

Dans les sociétés ouest-africaines, l'espace public est fortement imprégné de religiosités. Il s'y édicte une kyrielle de conduites à tenir susceptibles d'influencer les croyants. Comprendre ces dynamiques religieuses implique de saisir comment ces normes pénètrent la vie privée des individus, et comment les croyants – chrétiens et musulmans – se saisissent de ces normes, les mettent en scène ou les détournent dans leur quotidien. Fruit d'un travail collectif mené dans l'ANR « Priverel », en partenariat avec les universités de Ouagadougou (Burkina Faso), Abomey Calavi (Bénin) et Gaston Berger (Saint-Louis, Sénégal), cet ouvrage s'appuie sur la notion « d'espace privé religieux » pour analyser l'appropriation par les croyants des normes religieuses au Bénin, au Burkina Faso, en Côte d'Ivoire et au Sénégal. Ce livre suit un parti pris méthodologique en s'appuyant sur des objets et des matérialités éclairantes pour comprendre la religiosité dans sa dimension privée, voire intime. Se déclinent alors des manières de vivre le religieux dans les espaces domestiques et les lieux de cultes; des logiques d'adhésion, d'enfermementou de cumul. Les contributions permettent d'appréhender les marges de manoeuvre des individus dans leurs pratiques religieuses, en tenant compte des contraintes sociales familiales, de classe ou de groupe.

Maud Saint-Lary est anthropologue, chargée de recherche à l'IRD (IMAF).

Fabienne Samson est anthropologue, chargée de recherche (HDR) à l'IRD et codirectrice de l'IMAF (Institut des mondes africains) depuis 2019.

Mame Penda Ba est professeure agrégée en science politique à l'université Gaston Berger de Saint-Louis (Sénégal).