SAMIR AMIN   February 1973

CONCERNING THE « FRANC ZONE AND DEVELOPMENT »

We agree indeed with the general view expressed by Professor Patrick and Sylviane Guillaumont that "the effects of the franc zone on the development should be considered as a whole" (p.52). A critical assessment of the functioning of the zone which only dealt with its monetary aspects without taking into account trade and financial relations (movement of private capital, official "aid" etc.) between the metropolitan country and its periphery would be meaningless in our opinion as well as in the opinion of the authors of the report. The polemics based on the asymmetrical character of the monetary institutions of the centre and of the periphery of the zone are not of much interest because the major structures of dependence and under-development are not to be found at the monetary level.

.

Our essential criticisms of this report, a report moreover extremely well documented relate precisely to this angle. It seems to us, in fact, that the analysis of the relations between the monetary system and the problems of under-development, and development which is intended to cover every aspect of the problem is in fact limited to two facts in particular: 1) a theoretical general bias concerning the problem of under-development at the antipodes of our position and 2) a complete lack of analysis of the real structures of metropolitan and colonial French capitalism which would have thrown light on the essential <u>specific</u> aspects of the franc zone, which are not even touched on in the slightest way in this report.

The following is the general theoretical bias: there is no alternative for the African countries of the franc zone: the only possible development for those countries must be based on a very wide opening on the outside word; a priority to exports, and an appeal to private foreign capital and to official aid. We would have agreed with all the essential conclusions of this report if that were the case. For we are certainly of the opinion that in this development strategy, the "advantages" of belonging to a monetary zone outweigh, to a large extent, the "disadvantages" of an autonomous monetary management, even at the level of West Africa and Central Africa as a whole, and a fortiori, at that of each of the States constituting these unions. Being logical with themselves, the authors consider that the securities offered by belonging to a monetary zone constitute a non negligible element of the system. We agree with the authors that the institution of autonomous monetary systems, if not accompanied by a different strategic trend of development, involves serious dangers of failure: open to the outside and to foreign capital, the under-developed economies are incapable of having a sufficiently strict control over their external relations to be effective. This is clearly proved by experience (of Latin America among others). We also agree with the authors that rearrangements which are "legally" possible within the framework of the system (extension of medium and long term credit, advances to the State, readjustment of internal exchange rates, if necessary etc.) would then be more desirable if they are feasible. As do the authors, we think that measures taken in other fields (taxation; the compulsory re-investment on the spot by enterprises of part of their profits etc.) but still within the framework of the system, would be more effective. Finally, we agree with the authors that an argument "against" the zone mainly based on the analysis of the effects of past, and possibly future devaluations of the franc (in relation to other foreign currencies) is probably questionable. Certainly, the French franc was not a particularly strong currency in the past, and Africa contributed to the gradual recovery of the French economy by bearing part of the costs of the French inflation which accompanied the modernization process of France. But today as the spectre of a world disorganization is becoming noticeable, a disorganization created by the international monetary crisis, the "attraction" of the key currencies of the international system and of the dollar in particular, is no longer a cogent argument against the franc caused undeniable harm to the African countries of the area, if only because of the sudden decrease in the value of their reserves and an increase in the value of their external debt. African States however had no responsibility for this crisis of the French franc.

Of course, the deterioration of the double factorial terms of trade in the long run (the only one which has any sense) cannot be attributed to the monetary system, but to real deep causes and applies to all developing countries, those of the franc zone as well as the others.

Since the authors arguments are based on the conventional theory of under-development, they logically conclude that the "franc zone, no doubt, provides a context favourable to development "although they admit that this context is "by no means adequate to ensure it" (p 52). Of course, the authors are free to defend this alternative. It is less reasonable for them to make no reference to a radically different self-centred alternative, just as they exclude any beginning of a dialogue on the specific strategies for the transition from the present dependent structure to an autonomous structure which, alone can ensure development (in a sense which is more than growth. The purpose of these remarks is neither to develop this idea, here, nor is it to make a (facile) criticism of growth without development which has been and is still growth limited to a few micro-regions of the periphery in question, at the cost of the stagnation of the large majority of the countries and regions which constitute cheap manpower "reserves" for the micro-regions, a growth accompanied by an ever increasing inequality in the regional and social distribution of income, by the "marginalization" of the masses, etc. How can one fail to admit that foreign capital did not "develop" these vast areas of "reserves" and that although "investment codes" and conditions for receiving investment were extremely and equally liberal in all the franc the zone, in most of the African countries of the area no trace of development, not even an externally oriented one is yet visible? Can these countries wait indefinitely for the world evolution to give the foreign capital they have attracted so far a profitability which it does not yet have? (1).

In short, the economic, social and political failure of the "third world" subjected to this dependant peripheral "development" strategy challenges the very foundations of the authors analysis. Preference would therefore be given to the discussion of transition strategies under the actual conditions obtaining in Africa: heritage of under-development, balkanization (the origin of which can moreover be found in this dependent strategy) etc. to the discussion of the content of self-reliance policies at various levels (of the village, of the micro-region, of the States as they are and of larger regional units, etc.) and to that of the definition of the functions (and therefore of the methods) of the most adequate monetary system to ensure this transition. It is almost certain that, if African countries were to change their orientation to a self centred strategy, they could not remain in the Franc zone: the mother country would no longer get anything out of it. Unfortunately, until now the great powers have always reacted violently against any attempts made by their dependencies in the direction of freedom and progress. The freezing of foreign assets (such as the sterling reserves of the former British dependencies for instance), the economic and commercial blockade (China, Cuba, Chile, etc.) are the general reactions of the West. But to pursue this analysis which was not dealt with in the text we are commenting, would be useless since this alternative has been deliberately omitted from the discussion.

This having been said, it seems to us that the analysis of the specific features of the franc zone - within the framework of the peripheral growth system itself - has not been properly studied. The franc zone, as compared with other monetary zones which also include "metropolises" and "dependencies" has, in fact, a special characteristic: it is extremely centralized. This characteristic may possibly become gradually attenuated in future. We are blaming the authors for not detecting the specific reasons for this (still present) centralization, for not dealing with the - equally specific - functions it fulfilled (and continues to fulfil).

This centralization, moreover, creates a problem of terminology. Can one speak of the franc zone or would it be more appropriate to speak of the zone of the franc? By this, we mean: is there any difference between the monetary status of the periphery of the zone and that of a department of the mother country, beyond the institutional appearances of course?

A central bank deserves that name only if it can exert an effective control over the commercial banks, and if it is authorized to make advances to the Treasury. The pseudo-central banks of the franc zone in Africa lack these powers. By transferring funds to or from their head offices the - de facto is not de jure - branches of the large metropolitan banks constituting the banking networks of Africa can counteract local "monetary policies". The franc zone as a whole in fact constitutes a single monetary and financial market under the control of the Banque de France alone.

African States cannot, in fact, under those conditions, have monetary policy other than a merely "passive" one (boiling down to the automatic - adjustment of the money issue to the volume of export production). In this externally oriented strategy, these countries, after all, do not need any monetary policy which only has any sense in a self-centred economy.

Our aim, in this commentary, is not to develop our ideas concerning the functions of the monetary system. Let us simply say that we distinguish between a "passive" function (adjustment of the money issue to the real need) which the system fulfils both in the periphery and in the centre, and an "active" function (not in the quantitativist or Keynesian sense). This "active" function which makes possible a dynamic adjustment (within the framework of extended reproduction, the equilibrium between sections I and II of Marx's model) is only characteristic of a self-centred system. This is the function determining the sense of "monetary policy" (for a long time, the major if not the only centralized tool of the capitalist system), the successful use of which implies other adjustments, this time, real ones, mainly the parallel increase in productivity and in remuneration of labour. It is the absence of this latter element (the productivity labour remuneration parallel) in the externally oriented economies, which deprives money and credit of this function.

As to private and government transfers which, according to the authors of the report, constitute the "counterpart" of the monetary constraints, how do they differ from the regional movements of private capital and from the redistributions of public funds in the mother country? In our opinion, one should no longer speak of "monetary zone" when such a high level of centralization is involved, this term should be reserved for associations which offer their partners a minimum flexibility and autonomy.

What is then the function of this centralization? What are its prospects? Can we confine ourselves to saying, with the authors of the report, that the franc zone "originally conceived as a protected economic unit, as the very means of protection… seems today much more open to the outside world, as the very means of free- trade", and that the role of the franc zone has relatively diminished for the French economy itself" (2)? We do not think so at all. For it seems to us that limiting the means of "protection" to tariffs and quota fixing is to fall a victim to very superficial appearances. The essential means of this "protection" are the monopoly of the colonial firms established in Africa and the close relations of the local banking system with these firms. As, with the suppression of tariff protections and of quota fixing, the mother country opened within the framework of the common market - to the competition of its European associates, this type of monopoly in the periphery of the "franc zone" only became more prominent and more important, hence the maintenance of this monetary centralization, which is functional.

The franc zone was, and still remains to a great extent, an area in which prices are high, both as regards the industrial commodities of the mother country and the raw materials of its underdeveloped area, which a strict protectionism had relatively isolated from foreign competition. The French Empire was much more modest in importance than the British Empire; consequently, while the British colonies produced raw materials for the world market, the French colonies hardly met the needs of France in some of these raw materials. The production of the latter was deliberately stimulated by the mother country, even if natural and social conditions were less favourable than elsewhere. In exchange, for this, France sometimes consented to pays "excess prices" for some of these raw materials, these "excess prices" were largely offset by the excess prices the colonies paid for the manufactured products they imported from France, particularly textiles, hardware and a large number of other articles produced in the most backward sectors of French industry.

The constitution of the European Common Market and the association with this market of the former French colonies which had achieved international sovereignty in the meantime did not alter these characteristics, with respect to France, the competitiveness of the European associates, particularly the Germans, encouraged the modernization, certainly not of French industry as a whole, but of its most advanced sectors. This modernization was financed, at least, in part by taxing the backward sectors whose profitability was "artificially" kept relatively high by authorizing them to continue practising non competitive prices both in France and on the protected markets of the former colonies. In France, the financial system and the Treasury played a decisive role in this process of the transfer of resources in favour of the most advanced sectors which took up the challenge of European competition. This aim of metropolitan policy with respect to the Associated African States was materialized by the maintenance of the ultra-centralized character of the monetary and financial system of the franc zone. The strict control of credit distribution, monopolized by the French banks established in Africa, whose interests are bound up with those of the colonial firms, made it possible for France to maintain a dominant position in spite of the formal opening of the markets of these African countries to the manufactured products of the common market, that is why the progress of the exports of the common market countries to the African countries of the franc zone is still modest. As against this, the European partners of France were very reluctant in really favouring the imports of their African "associates" to the detriment of those from their traditional suppliers of Asia, Latin America and other African countries. The adjustment of the prices of the raw materials of the associated countries at world level, gradually imposed during the last decade, favoured this substitution. But the results were modest since the European partners of France scarcely have any interest in substituting the associated countries (to the markets of which they only have a limited access as exporters), for their traditional suppliers (among whom they have much free access as exporters). Therefore, the associated countries had to bear the cost of this adjustment; they derived no advantages on the import side to compensate for the fall in their export prices. The system has therefore worked almost exclusively for the benefit of France (3). Furthermore, in spite of the increased competitiveness of some French industries, the balance of payments of France with countries outside the franc zone is still extremely vulnerable. On the other hand, the increase in the production of the raw materials exported by the African countries of the franc zone which increasingly go beyond French needs, added to the de facto French monopoly in the imports of these countries, led to a constant improvement in the balance of payments of these African countries with the countries outside the Franc zone. Thus the amount of foreign currencies contributed by the African countries increased regularly from 372 million French francs in 1961 to 1218 in 1966. During the same period the annual foreign exchange earnings of the whole of the French zone fall from 3208 to 1220 million French francs (4). One understands how a very strict control exerted by the metropolis on African countries fulfils essential functions in the competition between France and the other industrial powers, particularly, its partners of the common market.

Thus, contrary to what the report asserts, which reflects the very general opinion, African economies still play a very important role in the development of the mother country. The comparison made in this report between the volume of foreign trade or of monetary reserves of the metropolis and those of the periphery of the area does not mean much. What is important is to know that in international competition, the metropolis in spite of the important progress-made in the processes of its modernization - is still very vulnerable. The international or local economic situation may entail there a sudden external deficit. The relatively stable “safety cushion” provided in time of crisis by the contribution of the periphery is not negligible. So, on this essential point, we do not at all share the views of the authors who think that the contribution of the African countries to the French reserves is “limited” (p.24). On the other hand, we entirely share the point of view of Mr. Xavier de la Fournière whose figures we have quoted above. To explain still more clearly the important role played by African countries, Mr. Xavier de la Fournière compares their contribution (1.2 billion francs in 1966) with that of a peak industry, the motor car industry (1.47 billions in the same year), and rightly stresses the increasing contribution of Africa, after 1966 (5). Africa does not therefore constitute a “deed weight” hauled by metropolitan capitalism; it fulfils, on the contrary, functions similar to those of a “peak sector” in the international competition between this capitalism and that of other industrial powers. This is far from being “negligible”.

It still seems to us that, it will be more and more difficult in future to maintain a system of this kind. The pressure exerted by the associates of France, today increased by the membership of Britain which has important interests in Africa, will keep on increasing in the direction of a liberalism plus “fair-play”. The ever increasing contradiction in the Africa economies themselves will be more and more intolerable (6). Will the system be flexible enough to make the necessary concessions in time? This is possible and will depend on a number of unforeseeable elements: world economic situation, local political evolutions, etc. But it has to be admitted that so far very few changes have been made. The establishment at the end of 1969 of a control of the relations between the West African Monetary Union and France, mentioned by the authors (p.5), is still at the very early stage, it is limited and will probably not be very effective in the long run. Its own logic should lead either to a gradual reinforcement of the system which run counter to the philosophy of the system. (for how can we act on the profits of the enterprises and on the incomes which are at the origin of the liquid assets or of the savings of the agents who make these financial investments?), or to its renunciation. Nor has the creation of African public banks (the development banks) so far altered the situation in which the credit system is dominated by the large metropolitan banks.

Mostly confined to farm credit, financed by local treasuries (and the rediscount of "central banks") these banks hardly deserve to be called "development" banks. On the contrary, the participation of local treasuries in this type of financing which would have been ensured in its absence by foreign banks is an additional "gift" of the periphery to the centre. The extension of the activities of these banks in the direction of medium and long term loans, the inadequacy of which the authors admitted (p.35 and following), would come up against the real economic structures and would entail definite inflationary effects. Here again, Xavier de la Fournière provides us with the essential data of the problem: while in 1968, medium and long term bank assistance in France represented 62.5 % of their net contributions to the economy, this percentage was 18.8 % in the West African Monetary Union (7). It is pointless to say that the quotas offered in this field are unused for want of an adequate demand on the part of African enterprises. This is very obvious and only proves that externally oriented growth is not development. The latter would require an active policy with respect to the production of national enterprises which cannot be "created out of nothing" spontaneously under the structural conditions of the system. And, it is because the indigenous private sector cannot be developed spontaneously that a public sector becomes necessary in every developing country wanting to make any progress.

The medium and long term assistance which would be necessary for this promotion and which would not be much more "inflationary" than an assistance of the same kind offered in the metropolis - might be given directly to enterprises or might pass though the Treasury? It is only a question of an institutional form of no importance. We have here the right to consider the monetary system as working in a "deflationary" way, we would prefer the term "anti-developing".

These are the reasons why it seems to us that the case for the possible creation of an "African currency" can be pleaded in a very valid way (8). Of course, this creation is not a panacea. The monetary tool still has a second place in a development policy. The main point lies somewhere else, in a revision f the way resources are allotted; but the monetary tool is, if not sufficient, at least indispensable for a real self-centred development policy for the African countries of the Franc zone just as for all the other countries of the underdeveloped world.

NOTES

(1) On this subject, we refer the reader to our work on the African countries of the Franc zone, in particular L'Afrique de l'Ouest bloquée (Ed. De Minuit, 1971), le développement du Capitalisme en Côte d'Ivoire (2nd Edition, Minuit, 1970), Le Monde des Affaires Sénégalais (Ed. de Minuit, 1969) and (in collaboration with Catherine Coquery-Vidrovitch), Histoire Economique du Congo, 1880-1968 (Anthropos, 1969). For a general theoretical analysis of growth without development, we refer to L'accumulation à l'échelle mondiale (2nd edition, Anthropos, 1971) and to our articles (to be published), Le modèle théorique de l'accumulation et du développement économique et social du monde contemporain, and le cadre théorique de la problématique de la transition.

(2) See L'accumulation à l'échelle mondiale (chapter III) and our articles mentioned above.

(3) Consult Moustapha Diabaté, Le Marché Commun Européen et l'Afrique, Présence Africaine, Réflexions sur la première décennie des indépendances en Afrique noire, 1971

.

(4) Xavier de la Fournière, la zone franc, Que sais-je, P.U.F., 1971, p.91.

(5) Op. cit., p..91 and following.

(6) This is what we claimed in our article: Pour un aménagement du système monétaire des pays africains de la zone franc, le mois en Afrique, n°41, 1969.

(7) Op. cit., p.76.

(8) Also the opinion of Professor Abdoulaye Wade. L'Afrique peut se developer avec des monnaies régionales, Décennie II, n° 7, October 1971.