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Guinea and the Ivory Coast: Contrasting Experiments in Economic Development

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Guinea and the Ivory Coast: Contrasting Experiments in Economic Development

Guinea and the Ivory Coast are neighboring, former French colonies in West Africa. Both countries gained their independence about the same time--Guinea in 1958 and the Ivory Coast in 1960. The contrast in the subsequent economic performance of these two countries with closely corresponding resource endowments is remarkable. The Ivory Coast GDP has grown at an annual rate of about 8 per cent in real terms. The Guinean economy has stagnated. A review of the economic record of these two countries since independence suggests that three factors were mainly responsible for their strikingly different performances: (1) different governmental philosophies of the mobilization and organization of resources; (2) differences in the extent to which foreign markets shaped domestic economic expansion; (3) differences in the role of foreign entrepreneurs in the national development effort.

This paper, in the course of examining these three propositions, also suggests that Guinea, which has increasingly restricted the economic activities of foreigners in the country, has grown more dependent on the mining sector, a foreign enclave; whereas, the Ivory Coast, which has relied heavily on individual foreign entrepreneurs, shows signs of achieving a greater degree of economic independence.

Grounds for parallel progress

In 1960, Guinea had about 3 million people occupying 95,000 square miles, an area about the size of Oregon. The Ivory Coast had only a slightly larger population, 3.3 million people, but its area is 124,500 square miles. The rate of population growth in Guinea during the period 1960-69 was about 3 per cent; in the Ivory Coast, between 3 and 3.5 per cent, about one per cent of which was accounted for by immigration. The populations of both countries are made up of several ethnic or linguistic groups. Guinea contains three major ethnic groups and the Ivory Coast, six. French is the common language in both countries. In both countries literacy rates were less than 10 per cent at independence. There were about 10,000 French expatriates in both countries when they became independent.

Guinea and the Ivory Coast possess a similarly varied soil, vegetation, and climate. At the time of independence, agricultural production accounted for about 54 per cent of GDP

in both countries.[1] About 90 per cent of their populations depended on agriculture for their income. It is agreed that the amount of land actually cultivated is well below the physical limits in both countries.

The Ivory Coast exported about 26 per cent of its GNP in 1960.[2] Its principal exports were coffee, and cocoa. Guinea exported coffee, bananas, and minerals. France was both the principal market for their exports and the main source of their imports, mainly manufactured goods. Prior to independence both countries used the CFA franc, which was closely linked to the French franc.

Conakry in Guinea and Abidjan in the Ivory Coast are the capitals, principal ports, and dominant urban congregations. In 1960, Conakry contained about 109,000 people, Abidjan, about 180,000 people.

Tribalism has not troubled either country. Strong political leaders, Sekou Touré in Guinea and Houphouët-Boigny in the Ivory Coast, enjoyed widespread popular support at independence and have held sway ever since.

Such were the similarities. There were differences. In level of development, measured in per capita income, the Ivory Coast had the advantage. In 1960, per capita GNP in the Ivory Coast was $181, believed to be the highest among all the French colonies in Africa.[3] Per capita income in Guinea in 1960 has been variously estimated at less than $100 a year. Guinea possessed immense mineral resources, however. Guinea's reserves of bauxite amount to about one-third of the world's known supply. In bauxite, Guinea possessed a potential source of foreign exchange that could greatly ease that constraint on economic development. The Ivory Coast, on the other hand, had little in the way of minerals; it was forced to develop its agricultural resources.

1/ IBRD World tables 1968, table 4.
2/ IBRD op. cit., table 4.

At independence perhaps the most visible difference between the two countries lay in the circumstances in which each country gained its independence and the ideological clouds that enveloped those days. Guinea proclaimed itself the most socialistic, radically independent, revolutionary country in sub-Saharan Africa. Almost all the 10,000 French expatriates in Guinea at independence left DeGaulle would have nothing further to do with "that man," Sekou Touré.

Since independence the Ivory Coast has maintained its ties with France There are about one and one half times the number of Frenchmen in the Ivory Coast today as in 1960. The Ivory Coast is praised for its liberal economic policies, its moderation and its pragmatism. It has its critics, however, who call Abidjan an "island of prosperity" created for the comfort of Europeans and imply that the Ivory Coast is an "Uncle Tom" among African nations.

Success and failure in agriculture

A comparison of the pattern of economic development in Guinea and the Ivory Coast reveals large differences between them. We shall review these developments in three separate areas: Agriculture, mining, and manufacturing.

With about 90 per cent of the population in both Guinea and the Ivory Coast deriving their livelihood from agriculture, it is clear that improvement in the well-being of the populace depends largely on progress in agriculture. The record is one of impressive success for the Ivory Coast and dismal failure for Guinea, as the following table shows.

Agricultural Production

	1960	1965	1966	1967	1968	Per cent change 1960-68
	Indices of total agricultural production (1957-59=100)					
Guinea	100	99	100	106	110	10
Ivory Coast	129	168	151	187	180	40
	Indices of per capita food production (1957-59=100)					
Guinea	92	82	82	84	84	-10
Ivory Coast	118	131	140	140	142	20
	Guinea: Export crop production in 1,000 metric tons					
Bananas	59	90	93	95	75	27
Coffee	12	9	7	10	11	-1
Pineapples	11	11	10	12	12	1
Palm Kernels	23	28	24	25	28	22
Peanuts	26	20	20	18	19	-27
Citrus Fruit	40	20	21	21	22	-45
	Ivory Coast: Export crop production in 1,000 metric tons					
Coffee	192	273	132	270	210	9
Cocoa	94	113	150	147	144	53
Bananas	120	128	132	143	137	14
Kola Nuts	28	38	40	40	41	46
Palm Oil	22	30	35	32	35	37
Pineapples	11	50	61	91	120	991
Rubber	3	3	6	6	7	133
Cotton	1	4	9	15	19	--

SOURCE: Indices of Agricultural Production 1959-1969, U. S. Department of Agriculture.

From 1957-59 to 1968, Guinea increased its overall agricultural output only 10 per cent, less than one per cent a year. During the same period, the Ivory Coast increased output by 80 per cent, an average rate of almost 7 per cent a year. Per capita food production actually fell 16 per cent in Guinea in this period, while the Ivory Coast boosted per capita food output by 42 per cent.

In the Ivory Coast the advances in agriculture have been related to demand in foreign markets. All eight leading export commodities in the Ivory Coast showed substantial gains in output between 1960 and 1968. One of the largest increases came in pineapple, which rose from 11,000 tons in 1960 to 120,000 tons in 1968. Guinea also produced 11,000 tons of pineapple in 1960, but in 1968, Guinean production had risen by a mere 1,000 tons. The Ivory Coast not only expanded output of traditional products, coffee, cocoa and bananas, but made impressive gains in new commodities such as pineapple and cotton.

Guinea, separated from pre-independence markets in Europe, shows lower output in 1968 than in 1960 for three out of six leading export crops. Only banana production showed any significant gain, output climbing from 59,000 metric tons in 1960 to 75,000 tons in 1968.

Mining important only in Guinea

At independence Guinea was a producer of bauxite, iron ore, and diamonds. Exports of these items were valued at $3 million in 1958. By 1960 Guinea had greatly expanded these exports and added alumina to the list. Guinea's mineral exports were valued at $26.8 million--or about half the total value of exports--in 1960. No important mineral resources in the Ivory Coast were known at that time. Now there are prospects of a substantial investment in iron mining for that country.

As the table below shows, Guinea has expanded production of bauxite and alumina in the past decade. There is an even bigger expansion on the horizon as a result of the exploitation of the bauxite deposits at Boké. Work on this project started in October 1969, and it is estimated that exports of bauxite will increase by 8 to 10 million tons in 1972, when the project is expected to be completed. The work is being carried out by a consortium of large foreign aluminum companies, which own 49 per cent of the shares of the mining company. The balance is owned by the government of Guinea.

Guinea has been less successful with iron ore and diamonds. Iron ore production terminated in 1967 with the exhaustion of the deposits previously worked. Diamond production declined sharply after nationalization in 1961 and ceased in 1967.

Mineral Production in Guinea

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Bauxite (thous. met. tons)	1,190	1,767	1,468	1,664	1,678	1,870	1,609	1,639	2,118
Alumina (thous. met. tons)	185.3	390.3	458.4	480.0	484.4	522.1	525.3	530.0	530.1
Iron Ore (thous. met. tons)	776	542	700	662	908	755	1,600[e]	-	-
Diamonds gem (thous. carats)	446	490	140	22	22	21	21	-	-
Industrial (thous. do)	670	730	210	32	51	51	51	-	-

e = estimate.
SOURCE: Minerals Yearbook, various years, U. S. Department of Interior.

Manufacturing

Both Guinea and the Ivory Coast have been interested in expanding production of manufactured goods, but in manufacturing, as in agriculture, the paths of development of the two countries have diverged.

In the Ivory Coast, manufacturing output valued in current prices increased from $47 million in 1960 to $160 million in 1966.[4/] For Guinea, , we have no comparable data, but the value of manufacturing output has been estimated in current prices to stand at $6.5 million in 1965.[5/] In the Ivory Coast the share of manufacturing in GDP rose from 8.1 per cent in 1960 to 17 per cent in 1966. It is estimated that about 30,000 persons are employed in about 300 manufacturing enterprises in the Ivory Coast, compared with about 7,000 persons in about 40 such firms in Guinea.

4/ IMF Surveys of African Economies, Vol. 3.
5/ IBRD op. cit., table 4.

The principal object of manufacturing in both countries has been import substitution, and efforts have concentrated on plastics, beverages, canned foods, and furniture. In the Ivory Coast the processing of locally produced timber and agricultural products, such as coffee, cocoa, and pineapples, has contributed to foreign exchange earnings, as well.

There are no reliable estimates of the rate of return on manufacturing investment in either Guinea or the Ivory Coast. In the Ivory Coast, however, the Department of Industrial Development expects priority enterprises, which constitute the major share of manufacturing in the country, to show gross earnings between 15 and 30 per cent of investment. Below 15 per cent indicates bad management. Above 30 per cent suggests that the benefits conferred on the enterprise, such as tariff protection and exemption from various taxes, have been excessive.

In Guinea many manufacturing enterprises are thought to be operating at a loss. The only clear success in manufacturing in Guinea is the cigarette factory. Other manufacturing plants, e.g., canned foods, wood and wood products, and textiles, operate far below capacity. The reasons given are several: lack of foreign exchange for the required raw material inputs, spare parts, tools, and the lack of professionally competent workers or technological know-how. In some cases the principal cause of failure is bad planning, pure and simple. One good example of this is the canning complex at Mamou, built with the help of the U.S.S.R.[6/] This complex was designed with the capacity to render 2,000 tons of fresh tomatoes a year into tomato concentrate, but only 285 tons were processed in 1964-65 and only 301 in 1965-66. The problem has been in obtaining delivery of the fresh tomatoes. Where the tomatoes were supposed to come from is not clear, since West Africa has never been known for its comparative advantage in tomato production. The factory was also designed to produce canned fruit and vegetables, but as might have been foreseen, there is little demand for canned fruits and vegetables in a country where fresh produce is available year round. Moreover, the product has been too expensive to export. The plant's capacity to process 250 tons of fruit and 250 tons of vegetables lies completely unutilized. The complex also includes a modern plant for canning meat. Although Guinea is quite rich in cattle, the factory

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6/ Suret-Canale, La République de Guinée, Paris, 1970, pp. 316-17.

has been able to obtain little of it because the price offered the cattle raisers is fixed too low. The small quantity of canned meat the plant has produced has been difficult to sell because the Muslim portion of the population (80 per cent) was not persuaded that the product met their standards, e.g., contained no pork. Opened in 1963, the complex at Mamou now produces a quantity of tomato concentrate and fruit juice that is very small compared to its productive capacity.

The manufacturing sectors in Guinea and the Ivory Coast clearly reveal the different economic philosophies of their governments. In Guinea, it is estimated that $5.2 million of the $6.5 million output in 1965 is attributable to the state-enterprises. In contrast the Ivory Coast government holds a small minority share in the capital of the manufacturing sector, but it plays no direct role in the management of individual firms.

In the Ivory Coast an industrial policy based on free enterprise has been consistently pursued since independence. The legal structure in the Ivory Coast is favorable to private investment, both foreign and domestic. The tax on industrial profits is a moderate 33 per cent, and new enterprises are exempted even from this for five years. There is some tariff protection for domestic manufacturing. The tariff on industrial imports (except on capital goods) from the common market averages 30 per cent ad valorem. Imports from other countries face a slightly higher barrier.

In general the investment climate in the Ivory Coast is competitive and the structure is sound. Furthermore, the Ivory Coast has drawn on foreign private investors, mainly French, for capital and technological know-how, while Guinea has relied on aid from various governments, including the U.S.S.R., the U. S., East and West Germany, Mainland China, Yugoslavia, and Belgium.

The Ivory Coast has, to a perhaps greater extent than any new nation in Africa, relied on private enterprise and foreign private investment for manufacturing development. The exact reverse is true for Guinea. The results have also been very different. The Ivory Coast has achieved a level of activity in manufacturing that is outstanding in its part of the less developed world. Perhaps Guinea has not stood still, but manufacturing appears to have been an exceedingly limited factor for growth in that country.

Foreign trade

The differences in economic performance is shown by the trade data. The decline in Guinea's agricultural production is reflected in the stagnation of exports: There is no growth apparent between 1960 and 1968. Imports, however, have risen at an average annual rate of about 4.3 per cent. Moreover, far from becoming less dependent on a few primary products, Guinea has become more dependent on bauxite and aluminum for its foreign exchange earnings. In 1960, minerals accounted for about half the value of Guinea's exports. In 1967 minerals, then only bauxite and aluminum, accounted for nearly two-thirds of Guinea's exports.

Foreign Trade
(In millions of U.S. dollars)

	Guinea			Ivory Coast		
	Exports	Imports	Visible Balance	Exports	Imports	Visible Balance
1960	55	50	5	151	120	31
1961	62	73	-11	191	169	22
1962	45	66	-21	193	156	27
1963	55	46	9	233	170	63
1964	43	49	-6	296	235	61
1965	54	53	1	277	263	14
1966	58	70	-12	311	258	53
1967	54	70	-16	325	258	67
1968	55	70	-15	425	314	111

SOURCE: Direction of Trade Annual, various issues.

Percentage Composition of Exports

Ivory Coast			Guinea		
	1960	1968		1960	1967
Coffee	48	34	Bananas	9	6
Cocoa	22	21	Coffee	17	11
Wood	16	25	Pineapples	6	6
Bananas	4	3	Minerals	52	65
Pineapple	2	2.5	Other	16	12
Other	8	14.5			

BCEAO Indicators economique Ivoiriens.

The Ivory Coast, on the other hand, has increased export earnings an average of 14 per cent a year since independence. Imports have risen slightly less. The table on percentage composition of exports shows that there has been considerable diversification. In 1960 coffee and cocoa accounted for 70 per cent of the export earnings of the Ivory Coast. This was reduced to 55 per cent in 1968, with wood assuming a more important role.

The level of living

The very different records in production and trade of the Ivory Coast and Guinea indicate a growing disparity between the level of living in the two countries. We do not know what food consumption has been in Guinea and the Ivory Coast, or the caloric intake or nutritional level, but these must have been affected by the 44 per cent increase in per capita food production between 1958 and 1968 in the Ivory Coast and the decline of 16 per cent during the same period in Guinea. The value of imports per capita is perhaps a rough measure of the availability of manufactured consumer goods, since most of those are imported. This increased at the annual average rate of only 2.2 per cent in Guinea during the 1960's while in the Ivory Coast the average rate of increase was about 9 per cent a year. The table shows some additional indicators of the level of living which suggests a similarly divergent trend between the two countries.

Some Available Indicators of Change in the Level of Living in Guinea and the Ivory Coast Since Independence

		Guinea		Ivory Coast	
National Income Per Capita					
1965		$72[1]		$206	
Energy Consumption (in kg. of coal equiv. per capita)					
1964		101		98	
1967		97		151	
Per cent change		neg.		54	
Telephones in use					
1963		4,200[2]		12,400[2]	
1967		6,500[2]		22,288	
Per cent change		55		80	
Motor vehicles					
1960		13,300		22,700	
1966		22,800[3]		73,300	
Per cent change		71		223	
Education		Teachers	Students	Teachers	Students
1959	1st level	n.a.	79,373	4,747	200,028
	2nd level	n.a.	6,006	734	8,396
	3rd level	n.a.	n.a.	n.a.	126
1966	1st level	3,990[3]	164,119[3]	8,275	381,452
	2nd level	880[3]	22,538[3]	n.a.	35,829
	3rd level	123[3]	560[3]	n.a.	1,566
Per cent change	1st level	n.a.	107	75	91
	2nd level	n.a.	275	n.a.	327
	3rd level	n.a.	n.a.	n.a.	1,142

1/ IBRD World table 4.
2/ Provisional.
3/ 1965.

SOURCES: U. N. Statistical Yearbook 1961, 1968.

It will be seen that, according to available information, only in primary education has Guinea shown more improvement than the Ivory Coast. Of course, these figures tell nothing about the quality of education. One would expect, for example, that the sudden departure of the trained French teachers from Guinea might substantially reduce the quality of instruction in that country.

The pattern of migration since independence is another indicator of the differential in welfare and opportunities between the Ivory Coast and Guinea. It is estimated that close to a million foreign Africans now live in the Ivory Coast compared with 150,000 in 1960. About 200,000 of these are Guineans. The number of Guineans in the Ivory Coast would probably be higher but for the political tension between the two countries and the difficulty Guinean workers have in converting their Ivory Coast earnings into goods and services in Guinea.

Foreign aid and trade preferences

The Ivory Coast has far outstripped Guinea over the past decade in economic performance. One country has stagnated economically, except for the minerals sector, where foreign investment was allowed to step in. The other has experienced dynamic growth that stands out not only in Africa, but compares favorably with high performance countries elsewhere in the world. What accounts for the growing inequality of incomes between the two countries? The resource base in Guinea and the Ivory Coast and their initial level of development were roughly comparable. A disparity in world demand for their products cannot explain the difference, since their exports were almost identical, except that Guinea possessed minerals, for which it has never lacked a market.

The very different economic policies adopted by the governments of Guinea and the Ivory Coast prompt one to look there for an explanation of their different development paths. Political leaders in Guinea, however, attribute much of Guinea's difficulty to the severity of the French response to Guinea's decision to opt out of the French community in 1958. Guinea was the only colony to make this choice, and General DeGaulle reacted by withdrawing all French technicians from Guinea and ending all financial aid. Guinea's complete break with France cut it off from French aid, but, as the table shows, aid from the U. S. and the Eastern bloc, mainly Russia, Mainland China, and

East Germany, was sufficient to offset much of the loss of aid that might have been expected to come from France. (The Ivory Coast was uniquely favored by France before independence, and so, one would expect, after independence, as well.)

Financial Aid
(Disbursements)
(millions of U.S. dollars)

	U.S.[1]	France[1]	Eastern Bloc[3]	Other[1]	EEC[1]	U.N.[1]	IBRD[1]	Total
Ivory Coast								
1967	-2.00	2.50	-	5.58	7.28	1.04	-	14.40
1966	11.00	18.60	-	4.12	10.76	1.04	-0.40	45.12
1965	2.63	24.20	-	.92	9.89	1.18		38.82
1964	7.00	25.70	-	.10	6.54	.87		40.21
1963	2.00	21.24[2]	-	.11	6.38	.76	-0.20	30.29[2]
1962	2.00	21.24[2]	-	.02	6.24	.74		30.24[2]
1961	1.00	21.24[2]	-	-	2.11	.26		24.61[2]
1960	-	21.24[2]	-	-	.02	.11		21.37[2]
1960-67								245.06
Guinea								
1967	12.00	-1.40	-	2.29	-	1.25	0.97	15.11
1966	7.00	-1.10	-	2.66	-	1.25	0.50	10.31
1965	22.37	-1.80	-	3.66	-	.79		25.02
1964	11.00		-	1.46	-	.68		13.14
1963	15.00		-	8.00	-	.30	-0.20	23.10
1962	6.00		-	3.70	-	.49		10.19
1961	1.00		-	1.27	-	.26		2.53
1960	-		-	.06	-	.10		0.16
1960-67			(105.7)					205.26

1/ Geographical distribution of financial flows to less developed countries, OECD 1966-67, 1965, 1960-64.
2/ Prior to 1964, data on French assistance available only for the fifteen French franc area countries taken together. The figure for the Ivory Coast during 1960-63 is one-fifteenth of the annual average of the total amount of French assistance to the franc area for the 4-year period, 1960-63, which was $1,274.70 million. Since the Ivory Coast enjoyed better than average relations with France, 21.24 million dollars is probably an underestimate of the average annual aid to the Ivory Coast.
3/ The portion of total aid commitments actually disbursed was estimated by relating unpublished figures on Guinea's external public debt outstanding to the country's current account deficits. This estimate was assumed to hold for aid commitments from the U.S.S.R., Mainland China, and other Eastern bloc countries.

The emphasis of Eastern bloc aid to Guinea was on industrial enterprises, which, as noted, have not done well, and showcase projects, such as the Soviet-built sports stadium and Polytechnic Institute and the Chinese-built People's Palace and highways in Conakry. U. S. aid to Guinea was not, in general, tied to projects. It was simple balance of payments support, such as PL 480 sales of rice for repayment in Guinean francs.

In addition to direct aid from France and the EEC, the Ivory Coast has obtained preferential treatment in the French market and into the European Common Market. The African Department Study Group in the International Monetary Fund has estimated the financial benefits attributable to French price supports on the basis of the price differential between the French market and the world market and the quantities exported. For the Ivory Coast, for the years 1960-66, the benefits totaled $10.2 million. The benefits reached a peak in 1961 and 1962 and declined sharply after that.

Bilateral preferences from France have been gradually displaced by the preferential treatment the EEC extends to the Ivory Coast (and seventeen other African States) as an "associated" overseas country according to an agreement (known as the Yaoundé Convention) that went into effect in 1964.

Guinea, on the other hand, was cut off from preferred entry into the French market and did not become associated with the EEC. Although Guinea readily found a market for her products in the Eastern bloc (about two-thirds of her agricultural exports now go there whereas almost all of these went to France before independence), it is difficult to compare the benefits Guinea has received from trade with the benefits of trade to the Ivory Coast. Much of Guinea's trade with the bloc has been by barter.

In spite of Guinea's break with France, Guinea has managed to obtain a substantial amount of concessional financial assistance. The inflow has been less than that received by the Ivory Coast, but the difference in quantity does not seem large enough to explain the great difference in the rates of economic development. The amount of capital that came in from abroad and the way it was utilized was not, moreover, independent of the economic policies of the two countries. Even if we do not dismiss the differences in the quantity and quality of foreign assistance received by the two countries, we still come back to the contrast in their policies for an explanation of their different economic performance.

French foreign investment

The Ivory Coast and Guinea are at opposite poles in their choice of economic policies toward France. Guinea's leaders pictured the relation between the metropole and the colony as one between an exploitative capitalist power and an agricultural plantation or raw material hinterland. They believed that foreign businessmen exploited the African territory in using it to produce cheap raw materials and foodstuffs. They reasoned that Guinea would benefit if this relationship could be broken.

The maintenance of close economic and political ties with France appears to have been highly beneficial to the Ivory Coast. Of course, French inputs of labor and capital, have not been costless. Earnings and dividends remitted to France from direct private investments in the Ivory Coast rose from $18.3 million in 1963 to $34.2 million in 1968, an average annual rate of growth of 13.2 per cent.[7/] Workers' savings remitted to France rose from $19.4 million in 1963 to $33.1 million in 1968, an average annual rate of growth of 11.2 per cent. New French private direct investment, including reinvested earnings, on the other hand, has averaged only about $5 million a year during recent years and has shown no upward trend.

The proper measure of the benefits of investment is the value and the efficiency of the production that it makes possible. The fact that annual new French investment in the Ivory Coast is less than the annual dividends remitted to France on existing investment tells nothing about the benefits to the country of the foreign investment already received. The high rate of growth of production and exports is a better indication that the received investment has been highly beneficial to the Ivory Coast. As noted, exports grew at 14 per cent a year during 1960-68. Light manufacturing and agricultural processing, where the French also predominate, grew better than 20 per cent a year during this period. A portion of this growth in output (perhaps a large portion) is attributable to French investment.

Perhaps the rising economic importance of the Ivory Coast will eventually obviate the issue of its economic dependence on France. For example, although the financial arrangements of countries using the CFA franc specify that foreign exchange

7/ IMF Balance of Payments Yearbook.

reserves shall be held in the form of French francs only, the Ivory Coast now holds some reserves in the form of non-franc assets. This is a small, but perhaps clear, sign of the gradual waning of French exclusiveness in the Ivory Coast.

Monetary policy and systems

A significant difference between the economies of the Ivory Coast and Guinea is the relative monetary and price stability in the former and the evidence of serious inflation in the latter.

In the Ivory Coast the average rate of price increase, according to the official estimate, has been about 3 per cent a year since independence. This estimate is consistent with the 12.5 per cent a year expansion in the money supply during this period in view of the substantial growth in the country's real output.[8/] Monetary stability in the Ivory Coast is further corroborated by the stability of the exchange rate for the CFA franc, the currency of the Ivory Coast. The exchange rate was constant during this period of dynamic export growth and increased diversification of trade with non-franc area countries.[9/]

Although no price indexes are kept for Guinea--most prices are administered--the inflationary pressures have made themselves evident. A black market flourishes: The Guinean franc was created nominally equal to one CFA franc but transactions take place at a discount of 75 to 80 per cent. This means that the price of a U.S. dollar is four to five times higher now than in 1960, which is equivalent to a price rise of about 20 per cent a year since the Guinean currency was introduced in 1960.

During recent years the Guinean Government has not published information on the money supply. During 1961-64, however, the money supply grew at the average annual rate of about 23.4 per cent.[10/] Such an increase in the money supply cannot be expected to be consistent with price stability when growth of real output is zero or slight, as in Guinea. Domestic inflationary pressures show up clearly in Guinea's trade data. The Guinean Government's refusal to devalue the Guinean franc, in spite of the free market's judgment that it is 3 to 4 times overvalued, has stifled exports and necessitated the sharp administrative curtailment of imports.

8/ International Financial Statistics. The period is 1962-68.
9/ The CFA franc was devalued 11 per cent in August 1969, following similar action by the French.
10/ IBRD, op. cit., Table 1.

Before independence, Guinea and the Ivory Coast, as well as the other territories of French-governed Africa, were using the CFA franc. However, the political storm precipitated by the birth of independent Guinea ruled out Guinea's remaining in the franc zone, just as it precluded the continuance of French economic aid to that country. In March 1960 Guinea established its own central bank with unlimited power to issue its own currency.

The Ivory Coast, together with six other countries (Mauritania, Senegal, Upper Volta, Niger, Togo, Dahomey), forms the West African Currency Union. With the other members of the Union, the Ivory Coast uses a common currency, the CFA franc, issued by their common central bank, the BCEAO (the Banque Centrale des Etats de l'Afrique de l'Ouest).

Membership in the BCEAO has assured monetary discipline on the part of the Ivory Coast, which, the record shows, is not easily achieved in less developed countries. The BCEAO is limited by statute in the amount of credit it is allowed to extend to member governments and the period for which it is extended. Moreover, this restriction cannot be abrogated by any single member government as long as it chooses to remain part of the system. Strong incentives exist for member countries to remain a part of the currency union (access to French aid is but one of them), which reinforces another factor favoring monetary discipline. If one country printed CFA francs to finance public expenditures, spending would be affected in the other countries in the union as well. Competitive inflationary financing, with each country's monetary authority aware that part of the cost of its own policies was borne by the others, would almost certainly result, and the union would break up as the value of the currency rapidly deteriorated. Therefore, to the extent that member countries are committed to the Union, monetary discipline is assured.

In Guinea none of the factors that have promoted monetary stability in the Ivory Coast are present. The Central Bank of Guinea is wholly owned by the Government, and there is strong evidence that the Government has turned to it for financing of its current and well as capital expenditures.

Price policies

At the time of independence, Guinea opted for the socialist model of economic development; the Ivory Coast for the free enterprise model. Stripped to its essentials, this means

that in Guinea economic decisions have been centralized in the hands of government administrators or politicians whereas in the Ivory Coast they remain in the hands of private investors, farmers, merchants, manufacturers and consumers.

The Government of Guinea has aimed at direct control of production and consumption in every sector of the economy except the foreign-owned mining industry. Trade, for example, from the international to the retail level, has been dominated by the state since independence. At times, the state has held absolute power in the parceling out of scarce consumer goods (rice, sugar, cloth, cooking oil). The various schemes for distribution have always operated in defiance of the laws of supply and demand and because of this have always suffered from the effects of graft and political favoritism. The dominant (and only) political party has at times held a monopoly in the distribution of scarce consumer goods.

The suppression of market forces in Guinea has led to a kind of suspended animation in the economy. A perfect example is the cotton textile plant: Production of cloth had gone on for some months, but no deliveries had been made. Here was a population in dire need of cotton fabric, and the piling up of stocks of cloth at the factory was causing problems of storage. The explanation was that the government planners had not yet decided what the selling price should be. They wanted to be sure, however, that they had sufficient inventory to supply the quantity demanded at the price they should finally decide on.

A report in the New York Times (December 16, 1968) describes the situation in trade:

> Weeds are growing in some of Conakry's narrow, empty side streets. Nearby, on one of the capital's main arteries, a signboard above the crumbling sidewalk proclaims "The worker who has everything to gain in a revolutionary regime must be unconditionally engaged in revolutionary action."
>
> A few blocks from the slogan, shoppers in the state owned Printania or Nayfay general stores idle between counters whose display spaces are two-thirds empty. Around the corner from the revoluntionary exhortation, however, a hole-in-the-corner black market offers the goods--imported cloth, transistor radios, bicycle tires, canned foods--that long ago disappeared from the big shops. Black market prices are three to four times higher than the cost of such merchandise in neighboring Sierra Leone, Liberia and the Ivory Coast.

Of all the policies implied in Guinea's "socialist option," perhaps the most pernicious has been the detailed regulation of prices in defiance of conditions of supply and demand. This has dulled the desire of producers to produce, as suggested by the agricultural production data, and to go to the market, as suggested by the export data.

Guinea's price control policy has exacerbated the effects of its inflationary monetary policy. Because the official price of the Guinean franc has been fixed since its creation in 1960, it no longer reflects the supply and demand for it in the world market. The government sets the value of the Guinean franc four or five times higher than the unofficial rate in the black market. It follows then that Guineans demand a quantity of imports totally incommensurate with their ability to pay for them. Nor do Guineans have any incentive to export. The exporter must surrender his foreign exchange receipts immediately to the government, who thereupon converts them to local currency at the official exchange rate, which is equivalent to reducing their value by 75 to 80 per cent.

Guinea's greatly overvalued exchange rate has made it necessary to impose an exhaustive array of controls on foreign trade. The government severely limits imports to conform with the quantity of foreign exchange the country receives from exports, aid, or private foreign investment. The result is that Guinea's industrial enterprises lack the imported raw material inputs and spare parts they need to operate anywhere near capacity, and the market places lack the imported consumer goods required to lure the people out of the subsistence sector of the economy into the monetary sector.

Guinea attempts to offset the effects of its overvalued exchange rate by subsidizing its exports and taxing its imports. Guinea subsidizes its agricultural exports through its state marketing organization, Guinexport.[11] During 1967-68, the export subsidy on bananas was 31 per cent, on coffee 57 per cent, on peanuts 92 per cent, on palm kernels 143 per cent, and on pineapples 147 per cent. Export subsidies were reduced somewhat for the 1968-69 season.

The source of funds for the export subsidies are import taxes. Funds from this source have been insufficient, however. Guinexport has shown a continuous deficit since its inception. Losses are estimated to have reached 3.7 billion Guinean francs.

11/ USDA, Agricultural Situation Report, January 27, 1970.

Guinea's efforts to correct its overvalued exchange rate through the operations of Guinexport have not succeeded. Guinexport's deficit, moreover, has intensified the pressure on the government budget, which, in turn, has increased the government's incentive to turn to the central bank for additional inflationary financing. Through this chain, the efforts have been largely self-defeating.

The Ivory Coast government also participates strongly in the economy through the Agricultural Price Support and Stabilization Fund. The government sets prices for the principal cash crops at the beginning of each season. These prices are adjusted each year, however, in response to world supply and demand forces. The government's main purpose is to stabilize prices during the year, and only secondarily to stabilize incomes over a period of years. Ivorian farmers are interested in maximizing incomes and they do respond to price changes. In contrast to Guinexport in Guinea, the Fund normally makes a profit, which is partly allocated to maintaining its own reserves and partly to agricultural development, such as extension services and diversification projects.

Because of Guinea's overvalued exchange rate and trade restrictions, Guineans have a powerful incentive to smuggle their output into countries with more desirable currencies and consumer goods. It is estimated that as much as one-third of Guinea's coffee crop eventually finds its way to buyers in Sierra Leone, Liberia, or the Ivory Coast. Protestant missionaires report almost incredible evidence of the power of the incentives to smuggling in Guinea: for example, border guards intimidated by machete-wielding farmers marching across the border with their coffee at night in groups of up to 250.

In order to deal with smuggling and black market activities, the Guinean government has had to hire more administrators and policemen. The effect of this measure has been similar to that of Guinexport and for the same reason. In Guinea scarce resources are allocated to a task that is performed in the Ivory Coast by market mechanisms at a cost to society of about zero. Moreover, this excess cost to Guinea is borne by the government budget, which is already sufficiently burdened. Close to 70 per cent of the Guinean budget is spent on personnel, compared with 45 per cent in the Ivory Coast. We might suspect therefore that, price controls have themselves been a contributing factor to inflationary pressures in Guinea.

Conclusion

The causes for the high rate of growth in the Ivory Coast and for the stagnation or decline in Guinea are not to be found in the relative endowments of natural resources in the two countries. Guinea has great potential for agricultural development. In fact, some experts believe the potential in Guinea is even greater than in the Ivory Coast. Guinea possesses a slightly wider range of agricultural capabilities, including the capacity for raising beef cattle. Moreover, Guinea has received substantial amounts of foreign exchange during the past ten years from bauxite and alumina production while up till now the success of the Ivory Coast has been achieved without minerals.

The situations in the two countries differed substantially, however, with respect to the supply of two of the traditional factors of economic growth, labor and capital, more precisely, non-African labor and non-African capital. The Ivory Coast relied heavily on French technical assistance and private French investment. Guinea has actively resisted "foreign domination" of its economy, but nevertheless has experienced considerable government-to-government assistance, mainly from the Eastern bloc and the United States. The key difference, therefore, was not the quantity of foreign labor and capital available to the two countries, but its kind of quality.

The relative availabilities of productive labor and capital in the two countries was directly dependent, however, on the actions of the two governments and on their different philosophies of economic organization and motivation.

At the time of independence, the Government of the Ivory Coast chose free enterprise; the Government of Guinea chose to bring most of the country's economic activity under its direct or indirect control. The Ivory Coast adopted a monetary system in common with several other countries which ruled out inflationary policies. Guinea resorted freely to inflationary money creation to finance its budget deficits.

These policy decisions did not work independently of each other. The CFA franc system has provided the Ivory Coast with monetary stability, and this has minimized the temptation for the government to intervene in the economy by controlling prices and placing restrictions on private use of foreign exchange.

Guinea's "socialist option" was put forward at the time of independence as the way to development with freedom from foreign influences. Government intervention in the economy, however, may have been increased by the need to deal with the serious inflation that resulted from bad monetary and fiscal policies, which were closely related to the socialist policies and the decision to break away from the franc area.

Governmental management of the Guinean economy has been costly and fraught with difficulties. The decisions of the Government have been difficult because they have been made without benefit of economic theory. They have been costly because the allocation of resources in Guinea has clearly left much to be desired and the incentives for increasing production and raising productivity have been inadequate. Moreover, socialism has resulted in the diversion of resources from directly productive enterprises to governmental administration. The results in Guinea have been a government deficit financed through money creation by the central bank, inflation, and stagnation of production and a lag in the improvement of the level of living.

Political leaders in both countries set great value on national unity and independence. Ivory Coast leaders are relying on the growing awareness of the economic advantages of unity to bridge the gaps between ethnic groups. They are relying on the rapid economic growth of their country to give its independence meaning. Guinean leaders adopted a policy of direct action by the political party as the key in achieving national unity and independence. The system in Guinea has evolved into a full-fledged totalitarianism, which has produced political unity but which has not resulted in much enhancement of the country's economic strength.

Writers on the history of economic development are usually careful to note that rapidly rising per capita income, the principal indicator of economic development, has been observed under conditions of economic and political dictatorship as well as in the typical Western examples of countries with free markets for labor, goods, and capital. The implication is that economic development is to some extent independent of political and economic organization.

A look at the experiences of the Ivory Coast and Guinea, however, strongly suggests that the political framework does matter for economic development. The Guinean experience suggests that where government monopoly comes to dominate economic activity and where the internal economy is isolated from external influences, the stagnation in the level of living is assured and permanent.