Three Essays on the Political Economy of the CFA Franc
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Abstract

This dissertation assesses one of the major criticisms of the CFA franc’s peg to the euro: whether it leads to complete loss of an independent monetary policy. It will focus on the West African Economic and Monetary Union since it is currently at the center of debate, and seeks to answer the following questions: Why has the CFA franc survived for sixty years after formal independence? Is monetary policy solely devoted to maintaining the fixed exchange rate to the euro or can West African policymakers attain other macroeconomic objectives? More importantly, does having an independent monetary policy even matter? The Central Bank of West African States (BCEAO) has committed to targeting inflation since 2010 but there is strong evidence that monetary policy fails to reliably influence economic growth and price stability in much of sub-Saharan Africa. Consequently, is the BCEAO’s current monetary policy framework effective at meeting its stated inflation target?

This dissertation is organized into three essays. The first essay provides a historical overview of the CFA and explores why the CFA has survived for so long. It argues that only a historical and dialectical materialist analysis of the CFA’s history can explain both its extraordinary longevity and the periodic major reforms to its functioning. The second essay assesses whether the BCEAO has an independent monetary policy by examining the relationships between the BCEAO’s foreign reserves and base money, and between the BCEAO and ECB’s policy rates. The third essay evaluates whether the monetary policy transmission mechanism in West Africa is effective by estimating the impact of a change in policy rates and base money on inflation. Preliminary results indicate that the BCEAO does have an independent monetary policy but that it cannot reliably control inflation with its current instruments.