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STABILIZATION AND ADJUSTMENT
POLICIES AND PROGRAMMES

COUNTRY STUDY

16

CÔTE D'IVOIRE

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COUNTRY STUDY: **CÔTE D'IVOIRE**

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PREFACE BY THE DIRECTOR

This monograph is part of a series being published by WIDER on the experience of developing countries with stabilization and adjustment programmes in the 1970s and 1980s. Each study analyzes the package of policies implemented by a specific country; its relations with the IMF and World Bank; the effects of the policies on production, employment, the balance of payments and social welfare; and what other policies might have been followed instead.

The intention of the series is to assist developing countries to devise adjustment policies that would, while accomplishing desirable adjustment and growth objectives, simultaneously remain politically viable in the particular country settings studied.

For this purpose it was thought desirable to explore policy alternatives to the adjustment programmes being implemented. Built into the design of the series, therefore - and constituting indeed its special feature - is the requirement that each study include a 'counterfactual' exercise to illustrate the effects of alternative policies. Utilizing econometric models adapted or specifically developed for each country, the probable effects of alternative policy packages are estimated; the object was to see how far the balance-of-payments adjustment and growth goals of a particular programme might have been achieved at a possibly lower social cost with a different policy mix.

Each country study is written by an independent scholar and expert in the relevant country. First drafts of the studies in this series were discussed at the WIDER conference on stabilization and adjustment policies in developing countries which was held 19-22 August, 1986 in Helsinki. Each study has been reviewed by WIDER's research advisers for the project, Professors Gerry Helleiner and Lance Taylor, and revised substantively by the author as necessary; subsequent editing has been conducted under the overall supervision of Mr Robert Pringle, Senior Fellow, who serves also as editorial adviser on WIDER publications.

A companion volume by Professor Taylor summarizing the experience of the countries surveyed will draw broader implications for the theory and practice of stabilization and adjustment policies; this volume will be published by Oxford University Press. The individual country studies in this series will subsequently be grouped into separate volumes, also for eventual publication by Oxford University Press.

Lal Jayawardena
Director
March 1987

EXECUTIVE SUMMARY

Until the 1980s, the Ivory Coast seemed to be one of the most successful examples of economic development, enjoying sustained growth and rising per capita incomes. This process was, however, seen to be fragile in the 1980s when it was brought to an abrupt halt by the slide in the prices of the country's principal exports, notably coffee and cocoa. From 1981-84, the economy contracted in real terms. An initial stabilization programme in 1981-83 supported by the International Monetary Fund failed to achieve its goals; a second, in 1984, was more successful but the author argues that this was due more to the recovery in the terms of trade rather than the contractionary policies pursued - which would otherwise have brought about a deep recession.

The relevance of this experience of the early 1980s to current policy-making became clear again in the renewed crisis of 1986-87 when coffee and cocoa prices collapsed again: the wholesale price index of coffee halved in the 12 months to April, 1987, causing export earnings to dwindle and making it impossible to continue servicing foreign debt in full. The debt moratorium and rescheduling of 1987 were the inevitable results. Equally inevitably, this crisis brought the Fund and Bank back to centre-stage with requests for further assistance including further government spending cuts, increased taxation, freezes on public service salaries and ceilings

on government staff hirings. It is therefore all the more important to draw the right lessons from the earlier experiences with Fund-supported stabilization programmes analysed in this paper: basically, the main lesson is that the Ivorian economy would have been better able to face the harsh conditions of the 1980s if it had not been so dependent on foreign markets and capital and that there are policies which would reduce this vulnerability in the long run. These should aim to diversify exports, broaden the domestic market, reduce reliance on foreign capital and factors of production. IMF-type policies, by contrast, tend to increase such vulnerability by placing so much stress on export promotion at a time when markets are weak or vanishing. The irony is that a selective de-linking of the economy from the world economy and the international flow of capital is being brought about by the very market forces which the international institutions urge on developing countries.

I. Introduction

This paper supplies a long-run perspective on two economic stabilization programmes implemented in the Ivory Coast in the period 1981-84 and evaluates the impact of terms-of-trade shocks on various macroeconomic balances and the distribution of income. With the help of an econometric model, alternative adjustment packages are considered and long-term projections to 1990 are made. The simulation results strongly suggest that orthodox absorption-reducing policies combined with trade liberalization lead to stagflation. While such policies reduce the fiscal deficit, the effect on the external balance is uncertain. By contrast, a heterodox package including import quotas, easy credit and interest rate policies, together with some decrease in absorption, does not produce such severe stagflation while reducing the fiscal deficit and uniformly improving the external accounts. Further, the heterodox package enhances the ability of the economy to adjust to external shocks while the orthodox package can actually exacerbates their impact.

The paper is organized as follows: section II provides a structural overview of the economy and discusses the impact

* I am very much indebted to Lance Taylor and Gerry Helleiner for their incisive criticisms on earlier drafts and for their patience, to John Harris for his valuable help and to Carlos Winograd for comments.

of the adjustment programmes of 1981-83 and 1984. This section attempts to show how the structural and institutional features of the economy limited the effectiveness of the stabilization programmes undertaken. Section III discusses a formal model and the results of econometric simulations on the distribution of income and the economy's growth path until 1990. A final section draws together the principal conclusions of the paper.

II. Structure and Performance of the Ivorian Economy

The consistent and impressive economic performance of the Ivory Coast over the two and a half decades to 1980 seemed to be one of the few contemporary success stories of economic development. Based on exports of primary agricultural goods (coffee and cocoa), the Ivory Coast enjoyed sustained growth and some import-substitution industrialization. Public investment, financed by agricultural export surpluses, led the way especially during the commodity price boom of 1976-77. Macroadjustment was achieved largely through quantity adjustment with little need for forced savings brought on by foreign exchange shortage. But then in the 1980s the bubble burst. This section examines the causes of the spectacular growth rates posted in the 1960s and 1970s and asks why the performance of the Ivorian economy turned out to be so fragile.

Over the twenty-five years from 1960 to 1984, the economy grew at an average rate of 5.6 per cent. This quarter-century is divided into two phases of economic experience and performance. From 1960 to 1973, (Phase I), the growth rate was higher, 7.3 per cent, as shown in Table 1. Growth in the early phase was spurred by the development of virgin agricultural resources and a period of "easy" industrial development in a favourable environment of a liberal investment code. In the second subperiod, 1974 to 1984 (Phase II), growth slowed. 1981-84 were crisis years brought on by a precipitous fall in commodity prices (coffee and cocoa account for 60 per cent of

export earning) and the terms of trade. From 1981 to 1984, the economy as a whole contracted at an average of 1.2 per cent.

Over the entire period, 1960-84, the dynamic sectors were manufacturing and mining, with an average rate of growth of 8 per cent, construction at 7.2 per cent and services at 6.5 per cent. Agriculture lagged behind, growing at 4.1 per cent per annum. In the dynamic sectors, growth slowed dramatically from Phase I to II. Manufacturing and mining was hit the hardest, and experienced negative growth rates in the crisis years of the 1980s. There were substantial drops in activity in other sectors as well.

For the period under study, agricultural and rural activities accounted for 31 per cent of GDP against 51.2 per cent for services, 12.1 per cent for manufacturing and 6.3 per cent for construction. Table 1 provides the breakdown by historical subperiod. Over time, urban activities increased their relative share of GDP as agriculture's share declined in Phase II. Manufacturing increased its share, as did construction and services. As the economy contracted in the crisis years, the share of agriculture predictably rose.

Despite vigorous economic growth, inflation was moderate, approximately 8 per cent per annum for the period as a whole.¹ Inflation more than tripled, however, from Phase I to Phase II. Contributing to the growth in inflation was the cost of imported intermediate inputs.

Table 1 shows that in Phase I, employment grew at 9 per cent per year but slowed considerably to 2 per cent in Phase II. Rural employment was half of total employment and grew faster in Phase I, at 11.3 per cent, than did urban employment which grew at 7.2 per cent. In Phase II, these trends were reversed. Table 1.b shows that both rural and urban employment decreased during the crisis years, with an average annual decline in rural employment by 14.8 per cent and urban by 3.1 per cent. The 1983 drought contributed substantially to the fall in rural employment in 1983 and 1984, while the collapse of the construction industry explains the bulk of the decline in the urban sector.

For the period as a whole, public consumption grew faster, at 8.1 per cent, than private consumption, which grew at only 4.8 per cent.² Public investment grew by 15.1 per cent while private investment grew by only 6 per cent. Government invested almost at the same rate during the two phases (on average) despite its fall in the second half of Phase II. Private investment collapsed in the 1980s.

Private savings for the period as whole more than kept pace with private investment, growing at an annual average rate of 14 per cent in Phase I and 9 per cent in Phase II. Private savings as a percentage of GDP was substantial; for the two and a half decades studied, it amounted to 18.6 per cent of GDP, and increased substantially between Phase I and Phase II. Private saving was relatively unaffected by the

crisis years. Throughout the crisis, private excess saving over investment was at least 5.9 per cent (see Table 1.b).

Internal Balance

Private excess saving over investment was largely absorbed by the public sector. As a percentage of GDP, the fiscal deficit amounted to 1.7 per cent over the period as whole. Income was substantial, public investment ample, and the fiscal deficit was for much of the time not a serious problem. However, in the 1970s the fiscal deficit accelerated, due mainly to the ambitious public investment programmes undertaken during the 1976-77 commodity boom period. In the crisis years, the fiscal deficit reached a high of 23.5 per cent of GDP in 1981. In years of slow growth there was insufficient private savings to cover the fiscal deficit. In 1978-80, for example, surplus private savings was only 4.2 per cent while the fiscal deficit reached 13.7 per cent of GDP. Similarly for the period 1981-83, private savings fell considerably short of the deficit.

Throughout the period, public-sector borrowing was high. As a percentage of GDP, public-sector borrowing amounted to 9 per cent for the period as a whole, more than doubling in Phase II (13.6 per cent) relative to Phase I (5.3 per cent).

There was increased reliance on foreign borrowing. In the earlier years, foreign borrowing was apparently used to increase reserves. In Phase I, reserves represented 6.6 per

cent of GDP while Phase II's higher fiscal deficits went hand-in-hand with increased foreign borrowing. It is clear that foreign borrowing was used as a means to smooth over payments deficits during years in which the foreign exchange constraint was binding.

The Ivory Coast has traditionally enjoyed easy access to foreign loans. In part the availability of foreign capital is largely a product of its relatively high rate of growth. But the Ivory Coast also belongs to the West African Monetary Union (UMOA) and hence its currency is tied to the Franc. It offers an open capital market with virtual convertibility, and no capital controls or limits on repatriated profits. In addition, the Ivory Coast has been stable politically and has pursued a consistent development strategy. Moreover, foreign borrowing broadened the monetary base causing credit to expand and thus helped to "crowd-in" private investment.³ With a pegged interest rate and no limitations on credit, public investment induced steady increases in income and therefore savings. Indeed, with declining levels of indirect tax rates, increased savings could have financed alone the large fiscal deficits. With foreign borrowing, the surplus savings was available for domestic capital formation.

Much of the growth in public investment was financed by funds from CAISSTAB, a commodity price stabilization scheme.⁴ CAISSTAB sets a guaranteed producer price which is usually below the world market. From its revenue CAISSTAB deducts the costs of collection, handling and shipping to foreign

consumers. When necessary, CAISSTAB bears all the costs of declining export prices. On the other hand, CAISSTAB does not automatically share foreign exchange bonanzas with farmers by immediate and proportional improvement in producer prices. The rate of accumulation of the Agricultural Financial Surplus (AFS) extracted by CAISSTAB is determined politically and is naturally a sensitive policy issue.⁵

For the period as a whole, the AFS represented 5 per cent of GDP, increasing from 4 per cent of GDP in Phase I to 6 per cent in Phase II. The simultaneous decline of real producer prices of cocoa (-0.9 per cent) and coffee (-1.1 per cent) and the upward trend of their respective export prices (2.9 per cent and 3.7 per cent) during the two and a half decades shows the increasing tax burden born by the export sector. Real producer prices decreased in Phase I and hardly increased in Phase II. Over the decades prior to the 1981 crisis, producer prices of cocoa and coffee were set at 55 per cent and 51 per cent of export prices respectively. Farmers' share of export prices declined in Phase II to 50 per cent for cocoa and 44 per cent for coffee from their Phase I levels of 58 per cent and 57 per cent respectively. On balance, CAISSTAB's export costs amounted to an average of 69 per cent of revenues, leaving a substantial surplus, 31 per cent of the value of cocoa and coffee exports, over the 25 years studied. The proportion fluctuated over time. Surplus extraction was higher in Phase II, some 37 per cent of export value, than in Phase I in which 26 per cent was extracted.

The AFS is a mechanism which transmits world market fluctuations to the government budget. This established a structural vulnerability of the country's investment policies to commodity price shocks, leaving foreign borrowing to take up the slack. The AFS share of public income was 20 per cent on average for the two and a half decades considered, increasing from 15.5 per cent in Phase I to 25 per cent in Phase II. With favourable terms of trade, the AFS could account for as much as 37 per cent (as in 1984) and as low as 16 per cent in 1981-83 period. Obviously, the AFS had a direct impact on public investment through transfers from CAISSTAB. Between 1975 and 1980, transfers from and direct investment by CAISSTAB represented 57 per cent of public investment, with spikes of 78 per cent in 1976 and 69.5 per cent in 1978.⁶ From 1981 onward, the share declined to well below 10 per cent as a consequence of unfavourable export prices.

External Balance

The Ivory Coast is highly dependent upon foreign markets and foreign exchange necessary to pay for both industrial intermediates and food staples as well as luxury imports. Imports of intermediates represent roughly half of the total as a result of rather substantial import substitution. For the period as a whole, the trade surplus amounted to 7.8 per cent of GDP.

The crisis of 1981-84 came as a surprise to the economically prosperous and politically stable Ivory Coast

after two decades of sustained economic growth. The first decade was virtually free of severe external dislocations. The 1973-74 oil price shock did not pose major difficulties and the commodity boom two years later generated huge foreign exchange earnings allowing a number of ambitious government investment projects. In part, these programs aggravated the terms-of-trade shock that was to come at the beginning of the 1980s. The resulting balance of payments deficits set the stage for the first stabilization program of 1981-83.

The immediate cause of the crisis was clearly the worldwide collapse of commodity prices. During Phase I, Ivorian terms of trade steadily improved and during the commodity boom years jumped by 16 per cent, but then in 1978 began a long slide. In 1980 alone, the terms of trade deteriorated by 14 per cent. Table 2 provides the details for the crisis period.

A measure of dependence is the degree to which the economy relies on foreign factor services. Transfers and services amounted to 13 per cent of GDP for the period as a whole; During the crisis years, the average was 21.5 per cent. Services represented the majority of foreign factor payments.

In the Ivory Coast, economic growth is closely connected with the presence of foreign factors of production; in 1975, foreigners accounted for 25 per cent of the total population.⁷ In the 1975-84 period, nationals, expatriate Africans and non-Africans represented 62 per cent, 33 per cent and 4 per cent of the labour force and received 54 per cent, 12 per cent and

34 per cent of the urban wage bill, respectively. Although substantial efforts have been made to limit foreign participation in equity capital, it is still overwhelming in the modern sector, especially since the liquidation of many public enterprises during the adjustment period. The cost to the country of this external participation in production is measured by the burden of transfers and services in the current account deficit. On average, net transfers and services absorbed 3 per cent and 10 per cent of GDP respectively over the two decades of the study. Transfers consist mainly of remittances whereas debt service represented on average 37 per cent of net services. Services and transfers were more responsible for current account deficits than excess imports or export shortfall. As we have seen, balance of trade surpluses were typical of the period. The key policy problem was how to control services and transfers, the pillars of liberalism, without at the same time threatening foreign capital. Hence, throughout the period, current account deficits were structural in nature, resulting from the prevailing productive structure and the necessity of foreign capital.

For external balance, the current account deficit must be matched by an equivalent net capital inflow. Capital did indeed pour into the country during the two and a half decades though it slowed markedly in latter years. As a share of GDP, capital inflow in Phase I was 2.5 per cent when balance of payments equilibrium would have required only a flow of 1.6 per cent of GDP. In Phase II, the volume of net capital inflow

fell short of what was required by current account deficits, with a corresponding decline in reserves for that period.

Over the two and a half decades, balance of payments deficits amounted to 0.2 per cent of GDP, again mainly as a consequence of payments deficits during Phase II. Average reserves for the period were 3.7 per cent of GDP, decreasing from 5.6 per cent in phase I to 1.6 per cent in Phase II. Expressed in terms of import capacity, reserves covered on average no more than one and one-half months of imports, declining from 2.2 months in Phase I to 0.6 months in Phase II. Over the period, accumulated debt increased from 23 per cent of GDP in Phase I to 65.3 per cent in Phase II. World Bank figures, in the 1987 edition of World Debt Tables, show an increase in long-term debt from \$1.0 billion in 1975 to \$7.1 billion in 1985. The big run-up in Phase II was the direct product of the euphoric years of booming commodity prices. As a percentage of exports, the debt-service ratio was 12.8 per cent for the period as a whole; but it increased rapidly in the crisis from 27 per cent in 1980 to 44 per cent in 1983. Debt service played a crucial role in the deterioration of the current account, exacerbating the crisis of 1981-83 touched off by the collapse in the terms of trade.⁸

Extended Fund Facility of 1981-83.

On February 21, 1981, the IMF granted the Ivory Coast an Extended Fund Facility (EFF) for 485.6 million SDRs. The

conditions of the financial support included cutting the public sector and current account deficits in half by the end of 1983 and the goal was to return the economy to its historical trend growth of 6 per cent. Public expenditure was to be frozen in real terms at 1980 levels.

By the end of 1983, these goals had not been met. The IMF blamed the underperformance on its overly optimistic forecasts of world economic activity as well as IMF projections of the Ivory Coast's oil resources. In 1980, economic growth was at 2.2 per cent but during the three years 1981-83, the economy contracted by 2.6 per cent annually on average, with no real growth even in 1983. The category suffering the greatest decline was real investment, with very steep declines in both public and private sector investment. Debt service grew further in real terms while the overall balance of payments did not improve significantly. As a percentage of GDP, the current balance of payments deficit dropped only from 16 per cent in 1980 to 15 per cent in 1983. During this period, in sharp contrast to earlier experience, the government was unable to attract a larger inflow of much needed foreign capital, a fact which was politically damaging to the regime.

There was a significant improvement in income shares of rural areas and urban, non-African wage earners. In contrast, urban expatriates from other African countries were worse off. Under the EFF, total employment decreased, with rural employment suffering most. This contraction in employment was especially painful by comparison with 1980, in which

employment as a whole grew by 15 per cent with rural employment increasing by 24.7 per cent and urban by 4.3 per cent. Construction workers suffered the most from the adjustment: employment was down by 23 per cent. Workers in manufacturing experienced virtually no decline and service employment contracted by only 1.6 per cent.⁹ The large reduction in public investment during the 1981-83 period explains the precipitous drop in construction.

Disaggregation of urban wage income reveals that Ivorian's gain in GDP was small, some 1.9 per cent, whereas non-Africans gained 19 per cent. In contrast, African expatriates bore the full burden of adjustment, losing 22.5 per cent of their GDP share. This substantial loss of income is related to the contraction in the construction sector which employed large numbers of non-Ivorian Africans. On the other hand, rural wage earners were typically African expatriates who suffered less than urban non-Ivorian Africans despite the decline in rural employment. This is due primarily to the increase in rural wages during the 1981-83 period. An index of real wage rates reveals that rural wages increased by 20 per cent in the 1981-83 period relative to 1980. This compares with urban real wages rates which only increased by 4 per cent.

The political power structure is dominated by the president's leadership and omnipresence in virtually all branches of decision-making. As a leader of a dependent economy, the president obviously has no control over the

external forces affecting the economy: however, he does exert enormous control internally. The president's personal influence, the fact that productive nonagricultural activities are foreign owned and staffed by foreigners in upper management goes a long way in explaining the nature and dynamics of the labour market: nominal wage elasticities with respect to inflation were generally less than one.

As has been suggested, this labour market is fully segmented. In particular, its non-African segment enjoys substantial autonomy vis-a-vis the domestic political structure. The non-Africans represent the interests of foreign capital and are entrusted with the technical control and daily operation of the productive system. Non-Africans represent only 4 per cent of the labour force but appropriate 34 per cent of the wage bill.

Non-Africans dominated the income distribution pattern under the EFF, with their real income increasing by 19 per cent over 1980 levels. Expatriate wage trends were increasing largely because non-Africans controlled urban activities, earning higher salaries due to their noncompeting status. Urban non-Ivorian Africans, on the other hand, actually suffered the most under the adjustment as a consequence of their low position in the skill pyramid and their status as migrant workers. Rural non-Ivorian Africans were by and large, better off. Ivorians' welfare did increase, but less than their African counterparts.

The mass of neighbouring country nationals who have migrated to the Ivory Coast in search of better economic opportunities are reluctant to support an aggressive union against a strong and sometimes repressive government. This partly explains why unions were unable to better protect real incomes during the EFF. What gains were made in the rural sector under the EFF were due to the scarcity of rural labour in the crucial export sector rather than union pressure.

A somewhat surprising distributional consequence of the EFF was that rural gross profits increased due to a declining AFS extraction rate. The government accepted the burden of the adjustment costs as an expression of its agrarian orientation and philosophy. The explanation of this lies less in the nature of Ivorian democracy and legitimacy than in the class background of the administration. The President and much of the political establishment belong to the wealthiest segment of the rural bourgeoisie and as such are prominent beneficiaries of CAISSTAB's agrarian policies. Because the political system is underwritten by export agriculture, it was essential for political as well as economic reasons to maintain strong producer incentives. Indeed, during the worst of the recent crisis, the guaranteed price of cocoa and coffee remained in effect.¹⁰

Clearly the EFF damaged the President's political prestige, tarnishing his reputation as a shrewd negotiator in regional and international affairs. Moreover, the EFF confirmed to international capital that the Ivory Coast was as

susceptible to balance of payments crises as any other export-oriented Third World nation. To make matters worse, this particular economic crisis was intertwined with a political crisis brought on by complications surrounding the succession of the President and the impact of the stabilization program on the incomes and standard of living of the political and administrative bourgeoisie. Consequently, international capital pressured the government to accept the stabilization programs as a means to political stability as well as economic adjustment.

The Stand-by Agreement of 1984

In the face of the failure of the EFF, a new program was instituted in 1984 with a goal of cutting the public sector deficit by 60 per cent and the current account deficit by 30 per cent in one year. Largely owing to a short-lived recovery in the terms of trade and other external factors, economic performance under the stand-by agreement (SBA) improved. Table 1 shows that the growth target of 1.4 per cent was exceeded in 1984. The economy-wide growth rate of 3.2 per cent was due mainly to a sharp recovery in agriculture which grew at 6.8 per cent. Nonagricultural GDP increased by only 1.6 per cent. Private consumption rose slightly. However, there was a further precipitous drop in private investment. Public consumption and investment plunged, by 8.9 per cent and an astounding 43.7 per cent respectively. Public income, on the other hand, improved by 23 per cent, narrowing the fiscal deficit.

The dynamic component of real public income was the AFS which nearly tripled as a share of GDP, due mainly to an improvement in the terms of trade by 22 per cent, as shown in Table 2. The CFA Francs export price indices of cocoa and coffee were up 48 per cent and 30 per cent in 1984 relative to their 1983 levels. Also, rainfall returned to its normal, predrought level and harvests were abundant.

The trade balance improved dramatically as export volume increased by 47 per cent and real imports decreased by 6 per cent (See Table 2). The current account deficit fell to less than one percent of GDP, partly, however, as a consequence of debt rescheduling, which, together with commodity price improvements, resulted in a reduction in the debt-service ratio from 43.8 per cent in 1983 to 23.9 per cent in 1984.

Employment, however, fell, with the rural sector bearing the bulk of the adjustment. In the aggregate the distribution of income shifted from labour to capital under the standby agreement. Table 1 indicates that real wage income fell and both rural and urban wage earners experienced a drop in their share of GDP, with rural wage earners tending to lose more.

The broad conclusion is that the SBA targets were overfilled not by adhering to contractionary policies, but mainly due to more favourable terms of trade and climatic conditions. Had the economic and physical environment not been so accomodating, excess savings would have undoubtedly brought

a severe recession. As it was, the fall in investment severely weakened the longer-term prospects of this once-successful economy.

III. A Model of Structural Adjustment

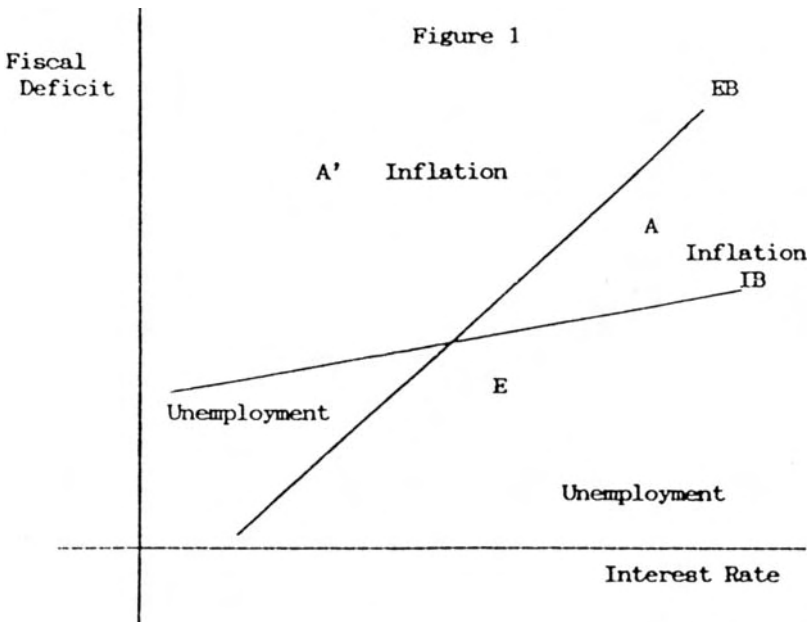
The standard remedies to correct payment deficits and ease inflationary pressures are fiscal deficit reduction and restrictive monetary policy. In a fixed exchange-rate scheme, the "effective market classification" principle¹¹ prescribes fiscal policy for internal balance and monetary policy for external balance. This standard model is discussed in this section and is seen to be inadequate to capture several key structural rigidities of the Ivorian economy. An alternative structural econometric model is then used to study more realistic adjustment paths.

It is important to keep in mind that the monetary union arrangement of the UMOA and the low level of financial market development severely limit the effectiveness of traditional monetary policy. The bulk of the population is rural, illiterate and oblivious to what financial markets do exist. "Portfolios" for the overwhelming majority of the population consist of real assets (livestock and/or land) and small holdings of money balances. There is no possibility of open market operations to control the money supply. As in many developing countries, the main monetary policy instrument is credit rationing. Interest rates are not an equilibrating mechanism, but are instead determined administratively. Credit availability and interest rates are, however, very important in determining the level and cost of working capital, thereby influencing production, consumption and prices.

Industrial and trade policies implemented through the investment code, such as fiscal holidays for selected firms, tariff and nontariff protection, etc., have been somewhat successful in creating a favourable environment for private investment. Such instruments lack flexibility however, and are not typically considered to be short-run macropolicy devices.¹² Indeed, macroeconomic policy is by and large limited to fiscal policy, with public investment as its main instrument. Similarly, the impossibility of devaluation deprives decision-makers in the government of the power to restore competitiveness when damaged by currency appreciation. Recession and price deflation remain the available alternatives; this is one of the costs paid for the guarantee by the French Treasury of full convertibility of domestic currency and for UMOA membership. The remaining question is how far the Ivory Coast can use tariff policy given its membership in the GATT and regional economic unions. Constraints on commercial policies, devaluation and the special nature of financial markets restricts macroeconomic policy to fiscal and credit rationing, adding to the rigidity of the economic system and inhibiting smooth adjustment to disequilibria.

The orthodox approach to open-economy macroeconomics is summarized in Figure 1. The flatter upward sloping curve, marked IB, shows combinations of the interest rate and the fiscal deficit such that the economy is at full employment or internal balance. This diagram, originally due to Mundell, is based on the standard IS-LM apparatus, assuming an interest

elastic demand for investment, imports rising with income, and a demand for money balances as a function of income and the interest rate. Exports are assumed to respond positively to competitiveness which depends upon the real exchange rate. As indicated in the figure, points above the IB curve correspond to excess-demand inflation, while points below the curve are deflationary with falling incomes, prices or both. At any point beneath the IB schedule, some combination of expansionary fiscal and monetary policy must be employed to restore full employment.



In the standard model, the steeper curve, marked EB, shows combinations of the interest rate and the fiscal deficit such that the deficit in the current account is just balanced

by the flow on the capital account, in other words, such that there is no change in reserves. The usual assumption is that higher interest rates attract more capital in the short run. Hence points below the EB curve would correspond to a balance of payments surplus which would be eliminated by a lower interest rate or higher income. In the Ivory Coast, however, increasing interest rates do not bring about an improvement in the balance of payments through such capital inflows. Rather, in mark-up pricing systems, rising interest rates spur inflation by increasing the cost of working capital. Inflation appreciates the real exchange rate which depresses the current account balance, *ceteris paribus*. Moreover, a fiscal deficit may nevertheless improve the balance of payments, largely due to stimulus to foreign investment that government spending on infrastructure crowds in. Thus, in contrast to the orthodox model, points below the EB curve in Figure 1 correspond to a deficit in the balance of payments, a deficit which is repaired by lower interest rates (lower inflation) and/or a higher fiscal deficit. Point E is the unique equilibrium in which there is both internal and external balance.

During 1981-83 crisis, inflation was high and the balance of payments was in deficit; the economy was therefore in a position such as point A in Figure 1. Note that in the orthodox model, an economy at point A would be in balance of payments surplus, and thus the orthodox representation of a crisis economy would be at A' rather than A. A reduction in the fiscal deficit would help restore internal balance in either case, but the orthodox prescription for restrictive

monetary policy is clearly unstable at point A (while stable at A'). What is required instead is a reduction of interest rates in order to reduce costs and internal inflation. This prescription for easy money is at direct odds with the orthodox remedy since now lower interest rates cause a depreciation in the real exchange rate and improve the current account by increasing exports and decreasing imports. Observe that in this case, both instruments work in the same direction to achieve external balance: fiscal policy reduces imports through an income effect and monetary policy forces expenditure switching.

In the next section, an econometric model is considered which reflects the theoretical perspectives just outlined. Some alternative adjustment paths are studied by way of simulations which compare "orthodox" versus "heterodox" policy packages.

Alternative Stabilization Scenarios

The simulation model employed is made up of seven blocks of equations which attempt to capture the structure and adjustment mechanisms of various markets.¹³ The agricultural market (industrial, export and food) is assumed to be supply limited, as are manufacturing and construction. Services are basically demand constrained, with the exception of utilities which are limited in supply. Total agricultural production satisfies intermediate demand, food,¹⁴ and nonfood consumption as well as exports. Intermediate consumption depends upon

domestic activity and food consumption is linked to relative consumer prices, incomes and the urbanization rate. Nonagricultural consumption varies directly with total disposable income and excess supply of real money balances. Private investment is exogenously determined by foreign direct investment and by the government's infrastructure budget while public investment directly depends upon the AFS and foreign borrowing.

Behavioral equations explain most balance of payments items, except for transfers which are assumed to be exogenous. Industrial exports depend on the real effective exchange rate. Nonfood imports are determined by the real exchange rate, tariffs, and the level of economic activity. Total debt depends on the general activity level and the AFS, whereas debt service is determined by total debt and real U.S. interest rates (inasmuch as 40 per cent of the Ivorian debt is dollar denominated¹⁵). Finally, net capital inflows are related to the domestic profit rate, the public investment budget and the private investment-savings balance.

Access to foreign borrowing is taken to depend upon the level of economic activity, the private savings and investment balance and, most importantly, upon the AFS which is used as collateral.¹⁶ Finally, direct foreign investment and other capital inflows are directly related to public investment which is a good proxy for the infrastructural base. The profit rate and degree of development of the social infrastructure is

taken as the determinant of capital flows (rather than the interest rate).

Mark-up pricing is assumed for industrial prices which is based on foreign prices, the dollar exchange rate and the domestic interest rate. Export prices of cocoa and coffee are exogenous and externally determined. Rice is a wage good and its market is controlled by a stabilization fund. Both its producer and consumer prices are policy variables, whereas producer and consumer prices of tubers (yams, casava and plantain) are market determined. Finally, the overall consumer price index is determined by each sectoral consumer price index. Urban labour demand depends on sectoral activity levels, whereas the real wage is the main determinant of employment in rural areas.¹⁷ The rural wage rate is a policy variable while the urban wage rate adjusts, with a lag, to inflation.

The money demand function relates real balances to real income. The money supply is taken to be a function of the external balance, i.e, the level of reserves. Given the low level of development of the financial markets, interest elasticity in the demand for investment or durable goods is assumed to be negligible. Movement in real balances, resulting from either changes in reserves or credit policy, affects private final consumption of nonagricultural goods. The interest rate is exogenous and significantly influences industrial unit costs, as discussed above.

The fiscal deficit depends heavily on the AFS, which is itself determined by cocoa and coffee production and the surplus extraction rate. CAISSTAB's commodity price stabilization policy shields the peasantry against price fluctuations with the AFS transmitting export price shock directly to the government's budget. The public investment budget allocated to rice production is the principal (although indirect) mechanism by which the agricultural sector is affected by commodity price fluctuations. Similarly the urban sector suffers through a slowdown in infrastructural construction.

The Impact of a Terms-of-Trade Shock

The first simulation attempts to model the crisis of 1981 in which the terms of trade collapsed. Table 3 shows the results of the first simulation in which there is an assumed 10 per cent decline of cocoa/coffee export prices, coupled with a 10 per cent increase in foreign prices. The computed data is shown for a five-year period beginning in 1980. The terms-of-trade shock is clearly stagflationary with real income declining by more than 4 per cent per year and inflation rising to more than 3 per cent. Urban activities are more adversely affected than rural with employment down by almost 2 per cent per year owing to a substantial reduction in the real AFS and subsequently a decline in public sector employment. Note the positive increase in rural employment due to the decline in real rural wage rate. In terms of share of total income, rural workers as well as landlords are better

off. The former gain through employment while the latter benefit from higher output levels and CAISSTAB's shield. Urban workers' share rises as well, but less than rural workers'; Table 3 shows that employed workers are better off, due to the assumption of nominal wage adjustment, while the class as a whole loses. Urban capitalists suffer a decline in share due to lost output, an increase in the wage bill and indirect taxes.

Note that the current account declines steadily, ballooning in 1984 at -162 per cent relative to the base run. This occurs because of the assumed reduction of export value and the increasing overvaluation of the real exchange rate spurred by the inflation. Net capital flows as a share of GDP fall as a result of the declining AFS and lower public investment as detailed above. Coupled with the decline in the current account, one observes that the reserve loss is substantial throughout the scenario. The fiscal deficit share of GDP also rises throughout the simulated period, again owing to the collapse in the AFS. The latter prevents public debt from accumulating, but debt-service ratios continue to rise through 1983 due to the adverse assumptions of the simulation.

Stagflationary Effects of Orthodox Adjustment Policies

The next simulation considers the impact of the IMF stabilization measures with the details of what shall be called the orthodox policy package given in Table 4. In addition to these policies, a World Bank inspired trade

liberalization program was designed and implemented through a revised investment code and tariff regime. The program aimed at unifying effective protection rates and reducing them by 40 per cent. Quota liberalization was also implemented. Table 5 shows the results of a simulation of this orthodox package combined with a 10 per cent decrease in the tariff rate and a 10 per cent increase in imports limited by quota to reflect the trade liberalization initiative.

Not surprisingly, the simulation produces a continuously stagflationary path with real output declining by some 7-8 per cent per year and inflation running at approximately 7 per cent. Urban employment decreases because of the fall in output due in part to government's expenditure decreases. With crowding-in working in reverse, private investment falls as well. The distribution of income moves in favour of the rural sector. Rural employment grows due to the fall in the real wage, but urban workers are assumed to be protected from the inflation by nominal wage increases. Rural workers' share increases due to the employment effect of lower real wages, while rural capitalists' share moves in the same direction. The big loser in share points is the government in that all other income classes improve. Indirect taxes decline, due to the lower level of activity and large drop in tariff revenues, by some 7 per cent.

Observe that there is no improvement on the current account, due primarily to the liberalization. When coupled with the appreciation in the real exchange rate and the fall

in the availability of foreign capital, the net effect is disastrous for the balance of payments. On the other hand, the contractionary effect of the adjustment policies does achieve a reduction in the fiscal deficit as a share of GDP. Public debt slides due to the fall in the fiscal deficit and consequently, the debt-service ratios decline.

Heterodox Policies I: Tariffs

The previous simulation showed that the impact of the orthodox adjustment schemes was stagflationary. The success in reducing the fiscal deficit was not matched on the balance of payments account, partly due to the appreciation of the real exchange rate brought on by the inflation. One solution to the balance of payments problem might be to reverse the commercial policies. Rather than more liberalization, we now consider a simulation in which tariff rates were increased by 10 per cent and quotas lowered to reduce imports by 10 per cent, together with the orthodox policy package of Table 4. The results of this simulation are shown in Table 6.

As a whole, the economy fares better under the heterodox package. First note from Table 6 that the combination is less stagflationary than the orthodox package alone, with roughly a one-percent gain in output and a two-percent gain in inflation. Changes in the distribution of income continue to favour the rural sector. Rural employment is up, again due to the fall in the real wage. The rural sector improves its share at the expense of urban profits rather than government

revenues as in the orthodox simulation. The latter are maintained in the current simulation by way of tariff collections.

Substantial improvement is also obtained on the current account, so much so that the large reduction in net capital flows does not prevent an improvement in the balance of payments position. The heterodox package is also superior in terms of the performance of the fiscal deficit, cutting it by more than twice the rate which occurs in the orthodox scenario. Public indebtedness and debt service are lower due to the reduced level of government investment, itself a function of the smaller flow of the AFS.

Heterodox Policies II: Quotas and Easy Money.

Finally, a second heterodox simulation was run in which import quotas are applied to selected luxury consumer goods with the savings spent on machinery, equipment and intermediate imports. In addition, credit is increased by 10 per cent and the interest rate is decreased by 2 per cent. The orthodox absorption reducing measures of Table 4 are also maintained. Results are summarized in Table 7.

The outcome of this simulation is clearly superior to any of the policy packages considered. Stagflationary pressures are considerably lessened. The contraction in real GDP is half that of the orthodox package due to the effect of easier credit. The fall in the interest rates also reduced

inflationary pressure, again to less than half of the orthodox package. There is a less pronounced redistribution of income and employment toward the rural sector. Landlords and workers improve their shares at the expense of urban capital and the government. The rural wage does not decrease by as much, nor does the urban wage increase by as much.

The current account also improves radically, and even with reduced capital flows, reserves build up at a strong pace. Even the fiscal deficit improves more than in the orthodox scenario. Table 7 shows that the AFS is a lower percentage of GDP and public debt is higher, but debt-service ratio is improved relative to the more conservative orthodox programme.

Point-by-point comparison of these two scenarios shows that the orthodox package is needlessly costly in terms of foregone output and employment. Both succeed in reducing the deficit, but the former is powerless to correct the external imbalance, this owing largely to the liberalization and appreciation the stagflation brings to the real exchange rate.

Medium-Term Forecasts

The Ivory Coast was virtually unconstrained in its access to foreign capital in its recent history and this explains why the economy could sustain such high levels of public investment. Since 1980, the international environment has, of course, changed radically with world recession and the debt

crisis. Any future scenario must consider substantial restrictions on access to foreign capital, at least through the 1980s. Accordingly, in the following scenario, it is assumed that foreign borrowing will decline from 96 per cent of the fiscal deficit to 60 per cent in 1985-87 and to 55 per cent in 1988-90. However, limits imposed on foreign borrowing were softened by debt rescheduling granted to the Ivory Coast in 1984 and again from June 1986 to June 1988. Debt rescheduling is integrated into the following forecasts, assuming that both the stock of debt and debt service declines by 23 per cent in 1985-87 and 18 per cent in 1988-90.

The other major assumption is related to export and producer prices of cocoa and coffee. The unexpectedly longer world recession led to lower prices for primary commodities in 1985-86 than forecast and the scenarios assume that the world economy will not grow any faster between 1987 and 1990, despite the reduction in oil prices. In medium-term simulations, export prices of cocoa and coffee are assumed to increase by 10 per cent annually during the 1985-87 period and to stop growing in the 1988-90. It is further assumed that government passes along 50 per cent of any increase to producers. Appendix Table 1 shows the remaining assumptions of the simulations.

Prospects for 1990

Base runs of the model predict that by 1990, growth will slow down to 4.6 per cent. Inflation will be moderate, in the

5 to 6 per cent range, and the real effective exchange rate will depreciate by 8 to 9 per cent. Both the fiscal deficit and the current account deficit will grow. Capital inflow will be small and insufficient to balance the current account deficit; hence, there will be reserve loss over the period. The stock of public debt will grow as will the debt-service ratio.

On the basis of these forecasts, simulations were run to evaluate the relative impact of orthodox versus heterodox adjustment policies. Table 8 shows the effects of the various simulations under the parameter settings listed in Appendix Table 1. The orthodox adjustment policies cum trade liberalization reduces real growth and produces moderate inflation and appreciation of the real exchange rate. The first heterodox adjustment policies with tariffs (heterodox I) are less recessionary but more inflationary. Heterodox II increases the real growth rate and produces the lowest inflation rate and appreciation of the real exchange rate. The fiscal deficit as a share of GDP decreases in all simulations. The current account deficit improves at roughly the same rate in the two heterodox schemes but much less under the orthodoxy.

The orthodox policies improve the shares of all income classes at the expense of government revenues. The heterodox policies, however, shift income from the urban capitalists to the remaining classes in the first case and from the urban sector and government to the rural sector in the second case.

The latter set of policies only marginally shifts the distribution of income. Note further that the stock of public debt decreases in all simulations but the decline is the greatest in the first heterodox scenario. In all cases, the debt-service ratio changes only insignificantly.

In the context of the world debt crisis, there is little doubt that constraints on access to foreign capital will continue in the near term. This implies that the public investment budget, as a rule, will be limited to programs that can be financed by internal resources. The fiscal deficit can increase only if either domestic saving increases or is better mobilized or the UMOA Central Bank accomodates the deficit in increasing credit to the central government. The first solution inevitably involves some crowding out while the second is unfeasible under current credit ceilings of the Central Bank.

IV. Conclusions

The experience of the Ivory Coast illustrates a fundamental problem with IMF-type stabilization programmes. This is that the instruments recommended, fiscal restraint, credit contraction, producer and consumer price increases, ceilings on foreign borrowing, etc., have little impact on the principal constraints under which the economy functions, e.g., the level of import and export prices, the degree of dependence on foreign factors of production and interest rate structures in world financial markets. In such circumstances, export promotion may only worsen the structural defects in the economy without guaranteeing foreign markets, markets that are in fact disappearing as the industrial countries adopt a more protectionist posture. Internally, trade liberalization may weaken domestic production competing with imports and reinforce the economy's long-term vulnerability to foreign markets and price instability.

In the case of the Ivory Coast, the structural adjustment programme that complemented the IMF stabilization programmes relied on trade liberalization to improve the current account and activity level through increased domestic competitiveness. However, the pegged exchange rate meant that competitiveness could improve only if measures were taken to reduce costs and keep them in line with foreign prices. Yet orthodox adjustment policies tended rather to increase domestic costs: competitiveness did not improve. Accordingly, the trade

balance deteriorated inasmuch as increases in the interest rate and the inflation rate led to the appreciation of the real exchange rate. Industrial exports therefore declined.

The simulations show that interest rate reductions are an effective way to reduce costs, but must be accompanied by import quotas in order to preserve the external balance.

The Ivory Coast will remain structurally vulnerable to external shocks as long its income remains so dependent upon commodity exports with erratically fluctuating prices. Even the best adjustment policy package cannot suppress the negative impact of adverse movements in the terms of trade. One remedy is clearly the diversification of the productive structure oriented toward a deepening of the domestic market. The internal market will broaden if the rural population can produce and sell a wider variety of food products and earn income that can be used to buy industrial goods from domestic industries. The greater the productivity gains in food production, the greater the purchasing power of the rural population and the larger the internal market.

The problem is not whether or not to sever the economy from the external market; as long as we import intermediate input, machinery and equipment, we must export. The first challenge is to find the right balance between primary commodity export activities and food production activities. Food crops ought to get the same status as traditional cash

crops. The second challenge is promote productivity improvement in both types of activities at an equal rate.

As soon as the internal market deepens, as a consequence of productivity gains in food production, which provides employment for the majority of the population, the interrelationship between agriculture and industry will tighten: food products will need processing, inducing new industrial activities; and farmers will need new implements and techniques, encouraging the development of engineering industries. The farther the integration of industry and agriculture goes the larger the internal market. These are the kind of policies that can gradually reduce, though not eliminate, the vulnerability of the economy to external shocks and put it on the path to self-sustaining growth.

Notes

¹ Food price inflation was not a significant factor throughout the period. The change in real consumer prices of rice and tubers was only 0.7 per cent and 5 per cent for the period as a whole. Both rice and tubers (yams, cassava, plantain) experienced higher inflation in Phase II (1.8 per cent and 5.2 per cent respectively) than in Phase I (-0.2 per cent and 4.7 per cent respectively). In the 1981-83 period, food inflation picked up to 8.7 per cent for rice and 6.5 per cent for tubers. Much of this inflation was explained by run-up due to the 1983 drought.

² The private consumption share of GDP decreased from 66 per cent in Phase I to 59 per cent in Phase II.

³ On the other hand, the fact that the government borrowed abroad while simultaneously running budget surpluses aggravated balance of payments problems. The actual pattern of fiscal deficit was therefore in part the product of debt service which represented 13.6 per cent of public expenditure over the twenty-five years considered. In Phase II, debt service as a percentage of public expenditure increased to an average of 20.9 per cent as compared to 7.9 per cent in Phase I, due mainly to the explosion during the crisis years (some 30.7 per cent of GDP). The debt and debt-service burden were, not unlike some other countries studied in this volume, the product of the relative economic success and subsequent international financial credibility enjoyed by the Ivory Coast. See Tuinder (1978).

⁴ Indirect taxes are the most important traditional source of public income and largely depends upon external trade. The share in GDP of indirect taxes decreased from 17 per cent in Phase I to 13 per cent in Phase II as a consequence of the deceleration of economic growth in Phase II.

⁵ The characteristic feature of commodity price stabilization programs is that during unfavourable years the producer price rises as a proportion of the world price and vice-versa for less favourable years. Price data show that CAISSTAB did not reduce guaranteed producer prices in order to maintain its revenue while export prices were declining. Conversely, when world prices were increasing, guaranteed prices were not increased in order to rebuild reserves.

⁶ Statistical tables of Mahieu (1985).

⁷ Ministry of France (1976).

⁸ Over the two decades, debt service accounted for 38 per cent of net services, more than doubling in Phase II to 51 per cent from 24 per cent in Phase I.

⁹ Rural employment also fell in 1983, but this was due to a 25 per cent reduction in rainfall.

¹⁰ On the other hand, when commodity prices finally recovered, the President was sufficiently powerful to contain producer prices. As a whole, farmers were not well organized and thus could not agitate for a more complete pass-through of the commodity boom. The majority of farmers are illiterate and may not even be aware of export prices.

¹¹ See Mundell (1962), reprinted in Mundell (1968).

¹² The investment code and tariff structure, for example, have been changed only once or twice in the past 25 years.

¹³ The details of the macroeconometric model and numerous other simulations not mentioned in the following text are available from the author.

¹⁴ The food sector has a number of important macroeconomic linkages. Excess demand for rice is satisfied by imports with consequent pressure on the trade balance. Food prices contribute to inflation and determine the real effective exchange rate and thereby the country's competitiveness.

¹⁵ Caisse Autonome de Amortissement (19\$\$).

¹⁶ An increase of one billion CFA Francs in the AFS leads to a 1.62 billion CFA Franc increase in the public debt stock.

¹⁷ Wage labour demand for cocoa and coffee production takes into account not only the rural real wage rate, but also food stocks as a reflection of traditional agricultural labour contracts which specify a proportion of the wage to be paid in kind. Hence, given any real rural wage, the availability of rice and tubers can induce an increase in labour demand and output of cocoa and coffee, *ceteris paribus*.

Table 1(a) Macroeconomic Data

	Phase I 1960-73	Phase II 1974-84
GDP (% annual growth)	7.3	3.7
Agriculture	3.7	4.2
Manufacturing and Mining	12.6	2.3
Construction	10.0	3.8
Services	8.6	4.0
Share in GDP (%)		
Agriculture	34.0	27.0
Manufacturing and Mining	11.8	12.5
Construction	5.7	7.0
Services	49.3	53.6
Employment (% annual change)	9.0	2.0
Rural	11.3	0.3
Urban	7.2	4.7
Public consumption (%)	13.0	2.4
Private consumption (%)	5.7	3.7
Public investment (%)	16.0	14.0
Private investment (%)	13.7	-3.0
Private savings (%)	14.0	9.3

Table 1 (b)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
GDP	2.3	-5.7	-2.3	0.1	3.2
CPI	11.7	10.9	9.8	6.3	4.8
<u>Real Wage (198 =100)</u>					
Rural	100.0	85.1	142.0	133.6	127.4
Urban	100.0	99.8	104.6	109.3	105.8
<u>Employment (% annual change)</u>					
Rural	15.0	6.9	-25.0	-3.8	-16.9
Urban	24.7	15.5	-39.5	-3.1	-32.0
	4.3	-4.4	-1.9	-4.5	-1.7
<u>Share in GDP (%)</u>					
Rural Income	24.9	26.6	26.9	28.8	30.0
Wage	2.7	2.8	2.9	2.6	2.4
Gross Profit	22.2	23.8	24.0	26.2	27.6
Urban Income	62.3	62.3	60.7	59.4	59.5
Wage	28.7	29.0	30.5	30.4	28.1
Gross Profit	33.6	33.3	30.2	28.9	31.3
Indirect Taxes	12.8	11.1	12.3	11.7	10.5
Total Income	100.0	100.0	100.0	100.0	100.0
Public Consumption (%)	3.9	-14.4	1.9	-2.6	-8.9
Private Consumption (%)	3.7	3.3	-4.2	-1.9	1.9
Public Investment (%)	16.9	9.7	-28.0	-24.8	-43.7
Private Investment (%)	-15.3	-30.0	17.8	-20.9	-41.2
Private Saving (%)	-1.7	-28.6	0.2	8.9	14.5
Private Saving (% of GDP)					
Excess over Investment	9.7	7.5	5.9	10.1	16.6
Fiscal Deficit (% of GDP)	17.7	23.5	19.5	17.2	19.5
Agricultural Financial	5.3	2.4	4.2	3.4	9.3
Surplus (% of GDP)					

Source: National accounts, Ministry of Finance; IMF Financial Statistics Yearbook; IMF Balance of Payments Yearbook and author's computations.

Table 2: External Sector Data (Percentage of GDP 1)

	1980	1981	1982	1983	1984
Trade Balance	4.8	7.8	8.0	6.2	19.8
Terms of Trade (1980 = 100)	100	102	82	84	103
Current Account Balance	-16.2	-14.1	-14.2	-15.3	-0.7
Change in Reserves	-8.7	-6.6	-2.0	-7.5	4.1
Net capital flows	9.1	7.4	12.3	7.8	4.8
Total reserves 2	4.2	4.8	0.7	3.6	2.4
Debt-Service Ratio 3	26.7	33.3	40.0	43.8	23.9

Notes: 1. Unless otherwise noted.
 2. Billions of 1980 CFA Francs.
 3. Percentage of exports.

Table 3: Terms of Trade Shock (% relative to base run)

10% reduction of cocoa/coffee export prices.
10% increase of foreign prices

	1980	1981	1982	1983	1984
GDP	-4.7	-4.6	-4.5	-4.4	-4.4
Inflation	3.4	3.4	3.4	3.3	3.3
Rural					
Employment	4.3	3.1	13.4	8.6	6.0
Real Wage	-3.3	-2.9	-3.3	-3.2	-3.2
Wage Share	5.8	4.5	14.8	9.9	7.4
Profit Share					
Urban					
Employment	-1.9	-1.7	-1.7	-1.6	-1.5
Real Wage	0.7	0.8	0.9	1.0	1.1
Wage Share	3.7	3.9	3.9	4.0	4.2
Profit Share	-0.3	-0.3	-0.6	-0.6	-0.8
Indirect Tax Share	1.3	1.2	1.3	1.4	1.3
AFS/GDP	-18.9	-50.7	-25.5	-24.1	-12.3
Current Account	-11.8	-11.8	-15.2	-19.9	-162.0
Real Exchange Rate	-3.3	-2.9	-3.3	-3.2	-3.2
Net Capital Flow/GDP	-3.2	-2.9	-4.1	-5.0	-0.4
Change in Reserves	-40.0	-357.0	-80.4	-154.0	-35.0
Fiscal Deficit/GDP	2.6	1.7	2.7	1.2	1.2
Public Debt	-6.4	-5.9	-6.5	-5.9	-6.3
Debt Service	0.8	0.5	1.6	1.7	0.6

Source: Author's computations.

Table 4: The Orthodox Policy Package

Category	Change
Public Consumption Budget	-10%
Infrastructure Spending	-10%
Credit	-10%
Rice Budget	-5%
Direct Taxes	+10%
Interest Rate	+2 points
Producer Price of Rice	+23%
Consumer Price of Rice	+33%

Table 5: The Orthodox Policy Package with Trade Liberalization (% relative to base run)

Measures of Table 4
 10% decrease of tariff rate;
 10% increase of imports by quota liberalization

	1980	1981	1982	1983	1984
GDP	-7.6	-8.6	-8.1	-7.9	-7.1
Inflation	7.1	7.1	7.1	6.9	7.0
Rural					
Employment	8.8	6.4	27.2	17.3	12.5
Real Wage	-6.7	-6.6	-6.6	-6.5	-6.5
Wage Share	9.9	8.6	29.3	19.3	13.2
Profit Share	5.5	7.1	6.0	6.4	5.7
Urban					
Employment	-2.2	-2.3	-2.7	-2.6	-2.5
Real Wage	1.6	1.8	2.2	2.2	2.4
Wage Share	7.5	8.8	8.1	8.1	7.4
Profit Share	3.3	3.0	2.5	2.1	0.8
Indirect Tax Share	-7.1	-7.2	-7.1	-7.1	-7.7
AFS/GDP	3.9	14.4	10.7	11.8	8.8
Current Account	11.8	-12.0	-13.3	-14.2	-16.9
Real Exchange Rate	-6.7	-6.6	-6.6	-6.5	-6.5
Net Capital Flow/GDP	1.5	1.9	-3.3	-1.9	-8.8
Change in Reserves	31.3	-248.0	-64.9	-108.0	-12.9
Fiscal Deficit/GDP	-7.3	-10.9	-11.8	-18.9	-23.5
Public Debt	-8.3	-9.5	-10.7	-10.4	-9.9
Debt Service	-3.5	-3.2	-3.5	-4.5	-4.9

Source: Author's computations.

Table 6: Heterodox I (% relative to base run)

Measures of Table 4
 10% increase of tariff rate
 10% decrease in imports by quotas

	1980	1981	1982	1983	1984
GDP	-6.3	-7.3	-7.1	-6.7	-6.0
Inflation	4.9	4.8	4.7	4.6	4.5
Rural					
Employment	6.2	4.4	18.6	11.8	8.4
Real Wage	-4.6	-4.5	-4.5	-4.4	-4.3
Wage Share	8.0	7.5	21.9	14.7	10.4
Profit Share	4.2	5.8	4.9	5.1	4.7
Urban					
Employment	-3.3	-3.4	-3.8	-4.0	-3.9
Real Wage	1.2	1.2	1.4	1.5	1.6
Wage Share	4.4	5.5	4.9	4.5	3.8
Profit Share	-5.9	-5.7	-8.1	-8.5	-8.5
Indirect Tax Share	8.8	9.3	8.3	8.0	7.4
AFS/GDP	7.8	11.4	8.9	9.4	7.2
Current Account	13.8	21.5	24.7	27.3	112.0
Real Exchange Rate	-4.6	-4.5	-4.5	-4.4	-4.3
Net Capital Flow/GDP	-13.1	-14.1	-23.7	-30.8	-35.9
Change in Reserves	9.4	5.5	28.2	40.4	24.9
Fiscal Deficit/GDP	-20.2	-26.0	-25.8	-35.1	-41.5
Public Debt	-9.9	-11.4	-12.7	-12.3	-11.4
Debt Service	-5.9	-5.5	-6.1	-7.4	-7.7

Source: Author's computations.

Table 7: Heterodox II (% relative to base run)

Measures of Table 4 except
 10% increase in credit
 2 point reduction in interest rate
 Selected Luxury Import Quotas

	1980	1981	1982	1983	1984
GDP	-1.7	-2.2	-2.1	-2.1	-1.6
Inflation	2.7	2.7	2.9	2.8	3.0
Rural					
Employment	3.6	2.6	11.5	7.5	5.6
Real Wage	-2.6	-2.7	-2.8	-2.7	-2.8
Wage Share	2.6	2.1	10.8	6.8	4.3
Profit Share	0.9	1.7	1.3	1.4	1.3
Urban					
Employment	-1.7	-1.8	-2.1	-2.1	-2.1
Real Wage	0.6	0.7	0.7	0.8	0.9
Wage Share	0.6	1.0	0.8	0.8	0.4
Profit Share	-3.2	-3.4	-4.2	-4.4	-4.5
Indirect Tax Share	-1.6	-1.6	-1.9	-2.9	-3.0
AFS/GDP	2.4	3.9	2.9	3.4	2.2
Current Account	12.8	18.4	20.7	24.7	192.0
Real Exchange Rate	-2.6	-2.7	-2.8	-2.7	-2.8
Net Capital Flow/GDP	-9.5	-10.1	-16.7	-16.5	-24.2
Change in Reserves	15.3	12.2	34.1	52.0	19.1
Fiscal Deficit/GDP	-11.2	-15.0	-14.7	-19.0	-23.7
Public Debt	-3.8	-4.6	-5.4	-5.3	-5.0
Debt Service	-1.0	-1.1	-1.4	-2.0	-2.0

Source: Author's computations.

Table 8: Medium-Term Projections (% relative to base run)

	Orthodox		Heterodox I		Heterodox II	
	1987	1990	1987	1990	1987	1990
GDP	-1.9	-2.6	-1.3	-1.6	1.1	.8
Inflation	2.2	3.7	2.6	4.2	1.9	3.3
Rural						
Employment	2.8	4.9	3.3	5.6	2.5	4.5
Real Wage	-2.2	-3.5	-2.6	-4.1	-1.9	-3.6
Wage Share	2.5	3.9	2.0	3.0	-0.6	0.3
Profit Share	3.4	4.6	2.5	2.9	0.3	0.8
Urban						
Employment	-0.0	-0.4	-0.3	-1.4	-0.1	-0.9
Real Wage	0.3	1.0	0.3	1.1	0.2	-0.8
Wage Share	2.1	3.2	1.3	1.4	-1.0	-0.9
Profit Share	3.7	3.3	-2.7	-5.4	-2.2	-3.7
Indirect Tax Share	-7.3	-6.9	8.8	8.4	-1.5	-2.1
AFS/GDP	2.2	3.3	1.6	2.3	-0.9	-0.3
Current Account	4.2	0.7	38.9	24.7	35.0	22.7
Real Exchange Rate	4.8	-0.9	-14.3	-18.3	-16.8	-21.8
Net Capital Flow/GDP	9.9	0.6	78.3	27.9	64.2	23.1
Change in Reserves	-45.6	-8.3	-19.7	-15.8	-15.9	-13.5
Fiscal Deficit/GDP	-2.2	-3.5	-2.6	-4.1	-1.9	-3.6
Public Debt	-2.6	-4.1	-4.2	-5.3	-1.4	-2.4
Debt Service	-0.3	-0.7	-1.0	-1.0	0.2	1.2

Source: Author's computations.

Appendix Table 1: Forecasting Assumptions (%)

	1985-87	1988-90
Price of Rice		
Producer	10.0	12.0
Consumer	8.7	10.0
Tariff Rate	-7.5	-1.0
Cocoa/Coffee Stocks	10.0	15.0
% of Foreign Deficit		
Financed by Foreign		
Borrowing	60.0	55.0
Net Transfers	18.0	19.0
% of Public Investment		
Devoted to Construction	1.0	1.5
% of Public Investment Devoted		
to Rice	10.0	1.5
Export Price of Cocoa/Coffee	10.0	0.0
Producer Price of Cocoa/Coffee	5.0	0.0
U.S. Nominal Interest Rate	8.0	10.0
U.S. Inflation Rate	2.0	4.0
Foreign Wholesale Price Index	6.0	8.0

Source: