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When Unification Creates Hierarchies or, The Deadly Life of Currency Unions

Abstract: The picture of holding the same money in our hands across borders has time and again served as a symbol of unity, while its divisive potential often disappears behind a veil of hope. Real monetary solidarity—the necessary flip side of Pan-African trade and development—requires more than a simplistic plaster of neoliberal currency unions. The time is now to counter the US dollar dominance, and discussions of South-South monetary solidarity are many—from the Pan-African Payment and Settlement System (PAPSS), the West African eco, the East African Monetary Union (EAMU), to a potential sur in Latin America and a move away from the petrodollar system. This contribution outlines a continuum of monetary unification systems and stresses the fundamental nature of political commitment to solidarity across monetary, productive, social, and political frontiers in order to achieve monetary unification as a stepping-stone to Pan-African unity.

Keywords: Pan-Africanism, monetary sovereignty, currency unions, African payment systems, monetary delinking

I. Introduction

"One currency—one nation" were the words by Togo's first president after political independence, Sylvanus Olympio, as an expression for economic sovereignty and symbol of unity, solidarity, and hope. The European Union decided on the same expression, "One currency for one Europe," to manifest the supposedly automatic translation of a single currency into monetary and political solidarity (Directorate-General for Economic and Financial Affairs [European Commission] 2019).

The hope for money to be a glue and facilitator of change is great, but the evidence of its delivery across different common currencies and monetary unions is weak and hints at divisive rather than unifying forces.

Countering what economic theory suggests, this contribution departs from the historical lesson that the success of currency unions depends less on the economic underpinnings of their members (Mundell [1973] 2013; Mundell 1961; Broz 2005) and more on the political commitment to

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engineering a monetary infrastructure (Dyson and Marcussen 2010; Dyson 2012; Wray et al. 2023) that delivers regional support, trade integration, and shock absorption. Monetary integration is not a goal in itself, but a means to an end. In the current political debates in Africa, the proclaimed goals are along the following three lines: (1) building Africa's energy and food sovereignty; (2) settling trade payment in African currencies to reduce exchange rate risks and the demand for USD; and (3) promoting intra-African trade and investment. The key question is: What is the ideal monetary infrastructure to support these endeavors?

I argue that monetary and economic unification strategies can take different institutional forms along a continuum of options. The two ends of the continuum (see Figure A below) are represented by (1) a total economic and monetary union, in other words, a single currency within a de facto African nation-state, and (2) mutually supportive but independent domestic currencies connected via a Pan-African settlement system. Both options would allow for radical monetary solidarity, given political commitment. The mixed forms in the center of the continuum, however, present the dangerous illusion of solidarity while in fact creating divisions among their members. To support the argument, I will start by outlining monetary unification frameworks, including specific forms of currency unions (CUs) and regional settlement systems (RSSs), and further detail the mechanisms through which CUs create internal hierarchies.

The 2022 Dakar Declaration calls for Pan-African, South-South cooperation and global solidarity against global economic and political crisis and against Africa's adverse incorporation into the capitalist order (African Economic and Monetary Sovereignty Initiative 2022). African monetary integration "must be built on principles of independence, unity and solidarity" (Pouemi 1980). In light of this debate, the calls for new and more CUs, including the East African Monetary Union as well as the eco, have presented themselves as anti-imperial projects that aim to dethrone the USD and euro and empower regions by unifying them under one currency. There is a great danger, however, of adapting a neoliberal institutional framework similar to the Eurozone that creates internal hierarchies and benefits only a few member states.

In theory, both CUs and RSSs should achieve three fundamental improvements. First, they should establish efficient payment mechanisms for facilitating cross-border financial flows among member states. Second, these payment systems should promote bilateral trade between countries. Third, the existence of common payment systems should encourage the use of national currencies in settlements instead of reliance on third-country currencies.

The central difference between the two approaches lies in the concept of "national currency." In a CU, the monetary sovereignty of each member state is relinquished to a supranational institution that facilitates the creation of a new national currency. Conversely, RSSs preserve each country's monetary sovereignty over its own currency while establishing a settlement mechanism that enables cross-border payments using these currencies.

The following analysis delves into the far-reaching dynamics arising from this crucial difference in how CUs and RSSs treat the monetary sovereignty of participating countries. This analysis is based on three stylized facts derived from critical legal studies. First, financial assets are legally constructed and therefore a product of social relations (Pistor 2013; Moudud 2020; Desan 2014). Second, "there is a pecking order of the means of pay, which implies that finance is inherently hierarchical" (Pistor 2013, 317). Third, "the binding nature of legal and contractual commitments tends to be inversely related to the hierarchy of finance: Law tends to be binding on the periphery and relatively more elastic at the apex of the financial system" (317).

Most of the time we focus on external financial dependency. In Part II, however, I focus on the hierarchy that is necessarily created internally through the use of CUs as a monetary "plumbing infrastructure" (Murau and Giordano 2022). Two moments in CUs are central in creating those internal hierarchies: (1) the accumulation of latent debt among countries with diverse production structures, export sectors, and related exposure to shocks, and (2) the elimination of exchange rate policy. Both moments create inherent and systematic tendencies for class wars and impoverishment of their countries' working classes. This is exemplified with reference to the Eurozone in Part II, and I conclude the comparison in Part III.

II. How Unification Creates Hierarchies, Subordination, and Class War—A Theoretical Endeavor

At present, four CUs exist worldwide: the West African Monetary Union (WAMU); the Central African Economic and Monetary Union (CEMAC); the East Caribbean Currency Union (ECCU); and the Eurozone. Only the Eurozone, however, is the product of sovereign states transferring their monetary sovereignty to a supranational level. The other three CUs are colonial relics that have seen infrastructural transformation since political independence but have their origin in forced monetary unification for imperial purposes.

The hope for solidarity through monetary unification, however, persisted and led to the establishment of the African Economic Community (AEC) in 1991.[1] According to the treaty, regional blocks are first to implement regional CUs to eventually form the African Monetary Union (AMU).

- In West Africa, the Economic Community of West African States (ECOWAS) includes members that are already part of a CU—the franc CFA zones (West African Economic and Monetary Union (WAEMU)), as well as Gambia, Ghana, Guinea, Nigeria, and Sierra Leone—to fast-track the creation of the eco, a unified West African currency.
- Southern Africa has been exploring regional integration in the context of the Southern African Development Community (SADC) via the South African Customs Union and the Common Monetary Area (CMA). The CMA, which now includes Lesotho, Namibia, and Swaziland, as well as South Africa, is anchored on the South African rand.
- In East Africa, the East African Community (EAC) (East African Community 2022) was formally created by Kenya, Tanzania, and Uganda in 1999 and extended to Burundi and Rwanda in 2007.

The creation of a common African currency has long been a pillar of African unity, a symbol of the strength that its backers hope will emerge from successful efforts to integrate the continent.[2] In his 1963 speech to the Organization of African Unity, however, Pan-Africanist Kwame Nkrumah made two important remarks, one directly proposing a Pan-African currency union and one laying out the arguments against it:

> [A]n African currency, an African monetary zone and an African central bank. We must unite in order to achieve the full liberation of our continent. (Nkrumah 1963)

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[1] Treaty Establishing the African Economic Community (Abuja, Nigeria, 3 Jun. 1991), *entered into force* 12 May 1994. https://au.int/en/treaties/treaty-establishing-african-economic-community.
[2] Treaty Establishing the African Economic Community, above at note 1.

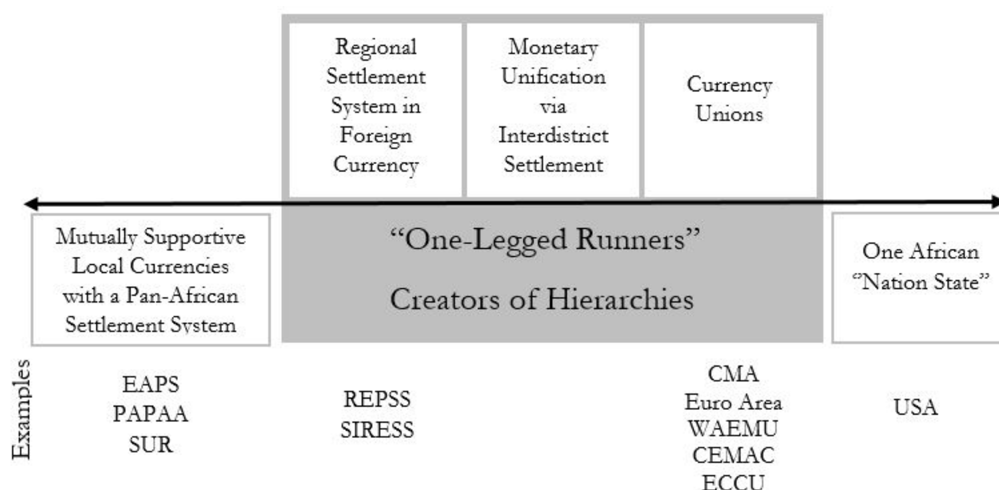
Shortly after this, he stated:

> It is important to remember that independent financing and independent development cannot take place without an independent currency. A currency system that is backed by the resource of a foreign state is ipso facto subject to the trade and financial arrangement of that foreign country. (Nkrumah 1963)

While Nkrumah appears to advocate for a unified African currency as a symbol of unity, he also emphasizes the significance of "independent financing and independent development."

The legal infrastructure is central to understanding the potential benefit or destructive force of monetary unity. Figure A depicts different forms of monetary integration and their potential to either create hierarchies or to act as a medium of integration and regional solidarity.

Figure A. Solidarity vs. Hierarchy in the Continuum of Monetary Infrastructure



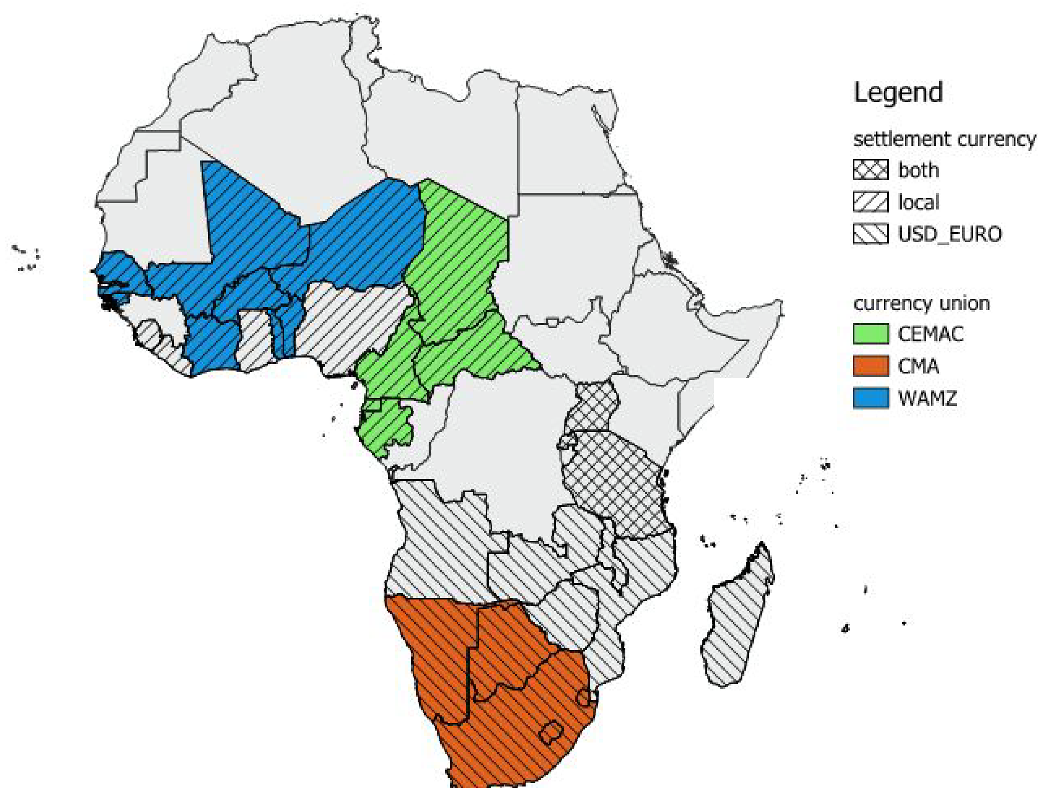
At both ends of the continuum there are stable legal structures that promote regional integration and shock absorption, but these also come with the strongest political commitments regarding nation-state sovereignty. The creation of "an African currency, an African monetary zone, and an African central bank" (Nkrumah 1963) would have the strongest unifying effect when accompanied by a fiscal and political union, which essentially involves the dissolution of African nation-states into a single African federal state. On the other end of the continuum, there is the proposal of mutually supportive local currencies connected through a settlement system that facilitates continental payments in African currencies. This option allows for maximum monetary and fiscal sovereignty for each member state while reducing trade costs, payment expenses, and currency risks. The East African Payment System between Kenya, Rwanda, Tanzania, and Uganda offers some insights into the working of such a settlement system. The proclaimed goals of PAPSS as well as the South American sur also seem to adapt settlement systems in local currencies (see Figure B below).

In the middle of the continuum, we find a collection of "one-leg runners": hybrid systems that may seem attractive from a political standpoint, but that are weak and potentially destructive in their legal infrastructure. Those include the listed CUs as well as settlement systems that primarily use USD and the euro to settle claims (see Figure C below).

Let us consider one of the most commonly proposed options among these “one-leg runners,” CUs, in more detail. CUs can take on very diverse institutional forms. Six main types can be identified (Akande, Adewuyi, and Adeoye 2007, 6): (i) total economic and monetary union, (ii) limited currency union, (iii) parallel currency union (circulation of a common currency alongside national currencies under a defined and fixed rate), (iv) partial monetary union (national currencies but with a fixed exchange rate between them), (v) single currency union, and finally (vi) double monetary union (Coburger 2022).

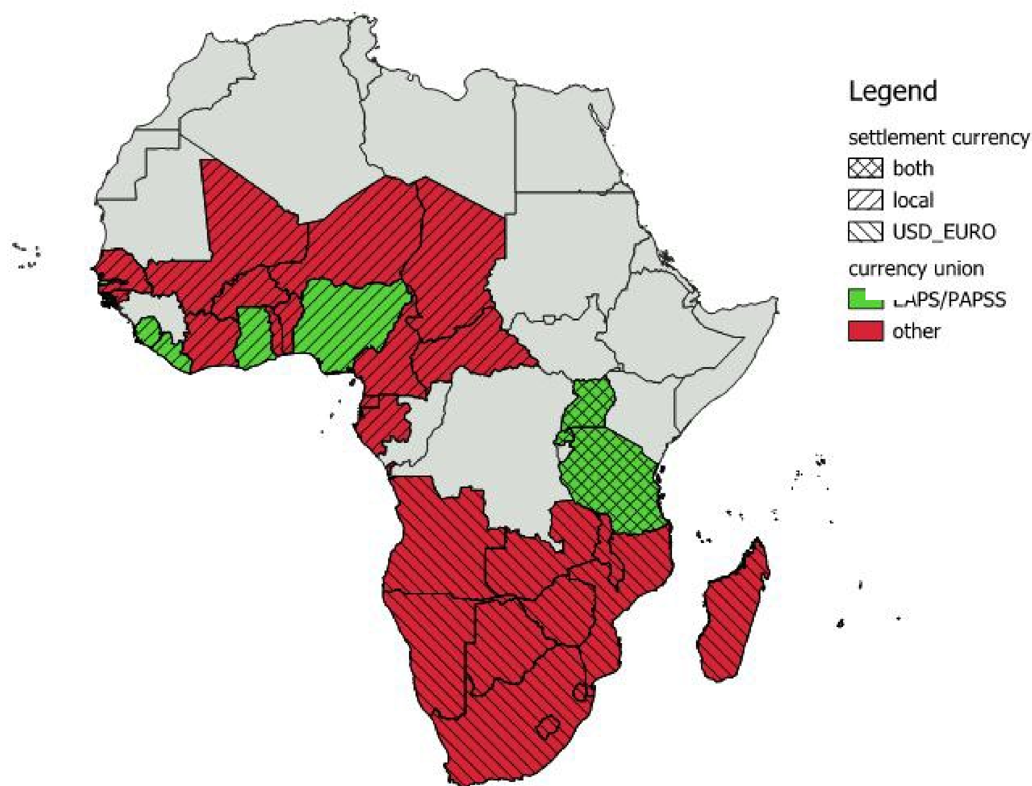
Despite CUs’ varying form, when sovereign countries create a CU, a complex operation is undertaken to integrate different and heterogeneous monetary systems along with their underlying real economies, productive industries, and import-export requirements. However, the existing differences, which stem from historical variations in the real economy, do not simply disappear when countries join a CU. The significant change is that all of these diverse economies now use the same currency under a single monetary policy that is by design unable to tailor policies to each member’s needs.

Figure B. Currency Unions and Regional Settlement Systems with Their Respective Currencies



Source: author’s visualization.

Figure C. "One-Legged Runners" [red] and Potentially Transformative Systems [green]



Source: author's visualization.

Consequently, the first dynamic that arises in CUs is the tendency to generate hidden debt among members with varying productive capacities, balances of payments, and external financing requirements. To mitigate excessive divergence in external financing, political mechanisms for discipline are employed. The African Union Commission report *Towards a Single Currency in Africa* explicitly acknowledges this disciplinary dynamic as a goal desired by the commission:

> [I]mportant beneficial effects follow ex post a monetary union through the promotion of trade and central bank credibility induced by unionization, which acts as an 'agency of restraint' for otherwise undisciplined independent fiscal impetus and monetary stance. Hence tying the hands of the monetary authorities through a regional constraint on monetary policy in the context of a monetary union would be a good thing. (African Union Commission 2009, 36)

This divide of supranational monetary policy, accompanied by the demand that nation-states clean up their domestic structures without the instrument of monetary policy, systemically hampers growth and development prospects for those members that had started their membership from a lower position within the CU hierarchy (Streeck 2015; Coburger 2022). CUs hence turn into one-leg runners, systemically too weak to enable regional solidarity and yet too strong and restricting to allow countries to help themselves in moments of crisis.

Second, as countries no longer have monetary sovereignty to determine exchange rates within CUs, the only available instrument to influence macroeconomic variables, such as price-level adjustment to enhance exports, is internal devaluation. This involves reducing labor costs to create competitive advantages in production prices. Consequently, CUs, due to their monetary structure, tend to exacerbate class conflicts as the impoverishment of the working population becomes a means to enhance macroeconomic competitiveness.

Let us now turn toward the Eurozone and the manifestation of these inherent tendencies of CUs in the European context.

III. How to Repeat Europe's Mistakes

For now, the Eurozone is an anomaly, the only CU formed by independent nation-states that willingly handed over monetary sovereignty to a common supranational organization. Sharing a currency requires ceding (Mundell 1961; Mundell [1973] 2013) control over monetary and exchange rate policy as macroeconomic stabilization tools at the national level. The Eurozone started as a CU without formalized fiscal transfer infrastructure and had to painfully experience the necessity of such infrastructure throughout the multiple crises following 2007.

Similar to the African narratives around unity and solidarity, the European narrative when the euro was newly introduced was one of unity: "A new we-feeling would develop—we Europeans" (former European Commission (EC) president Jean-Claude Juncker, quoted in Wray et al. 2023, 156). The post-2007 crises revealed, however, that the zone failed to dissolve internal hierarchies among its members, and indeed entrenched preexisting country differences into core-periphery subordination dynamics within the union. The Eurozone has materialized both hierarchy-creating moments introduced above. First, the accumulation of latent debt before the TARGET2 reforms created systemic internal imbalances (Murau and Giordano 2022), which, coupled with a lack of fiscal transfers, reinforced existing core-periphery structures (Gräbner and Hafele 2020, 5; Storm 2019). Second, the elimination of exchange rate sovereignty and the establishment of one monetary policy rule for Europe's supply-based North and demand-based South cannot work equally well for both. "The consequence is that qualitative horizontal diversity is transformed into a quantitative vertical inequality" (Streeck 2015, 16). Without the instrument of monetary policy, CUs put national governments under enhanced pressure to compete against each other on wage and labor market flexibility to influence macroeconomic variables to boost competition—a process known as competitive internal devaluation (Rathgeb and Tassinari 2022).

IV. Conclusion—Tailoring Policy to the Goals, or Choosing Solidarity over Discipline

Given that each monetary framework is the result of a legal decision and hence an expression of social and class relations, it is not a simple judgment which concrete framework would enhance regional solidarity most and which poses the greatest risk. The above analysis, however, has identified some key differences between currency unions and regional settlement systems. Depending on the legal wiring of either option, both choices can turn into a one-leg runner, too weak to enhance regional trade and solidarity but too strong and restricting to allow its members to thrive and develop.

Table 1 summarizes the earlier-introduced monetary infrastructure continuum and its potential for (1) maintaining the monetary sovereignty of its members, (2) absorbing shocks among members, and (3) promoting intra-African trade.

Table 1. Comparison of Monetary Unification Options

	RSSs			CUs	One African "Nation State"
	Settlement in Foreign Currency	Settlement in a Dominant Regional Currency	Settlement in Common African Unit		
Monetary Sovereignty	YES	LIMITED	LIMITED	NO	YES
Shock Absorption—Solidarity	NO (subject to political will)	NO	NO	LIMITED	YES
Intra—African Trade Facilitation	YES	LIMITED	LIMITED	LIMITED	YES

The analysis therefore identifies a Pan-African nation-state as the most effective framework to achieve monetary sovereignty and solidarity. However, in the absence of political willingness to cede individual nation-states, the call by Pan-Africanist Samir Amin for "mutually supportive national currencies" (Pigeaud and Sylla 2021), tied together via an African settlement system based on African currencies, is the second-best option. Here, each country and its "central bank should manage the foreign exchange reserves of its country and should be allowed to grant budgetary advances to its national treasury" (Sylla 2021, 40).

Outside Africa, support is growing and alliances are forming to construct monetary systems that enhance sovereignty and regional support. In early 2023, Argentina and Brazil went viral with their announcement to strengthen the MERCOSUR trade bloc with the introduction of the sur, a regional unit of account that would come alongside expanded credit to support exports and permit a gradual joining of Latin American and Caribbean states (CELAC, including Bolivia, Chile, Colombia, Honduras, Mexico, Peru, and Venezuela). The statement of the two heads of state was as follows:

> We intend to overcome barriers to our exchanges, simplify and modernize rules, and encourage the use of local currencies. We have also decided to advance discussions on a common South American currency that can be used for both financial and commercial flows, reducing operational costs and our external vulnerability. (Fernández and Lula da Silva 2023, author's translation)

It is too early to know the details of the proposition, but the goal and intention to continue using national currencies while establishing a regional unit of account to settle trade payments promises lessons learned from the Eurozone and a goal-oriented infrastructure designed for substantial regional solidarity.

In summary, radical Pan-African monetary solidarity can be achieved either with a single African currency woven into a political and fiscal union, or with mutually supportive domestic currencies tied together via an African settlement system. Monetary solidarity needs the foundation of

political solidarity and commitment, but with such solidarity and commitment it can function as a great enabler (Perez 2021), promoting intra-African trade, investment, and the creation of economies of scale and shock absorption in times of crises.

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