# Public Finance and Capital Investment: A National Perspective on Colonial Dahomey

Patrick Manning

*Canadian Journal of African Studies / Revue Canadienne des Études Africaines*, Vol. 14, No. 3. (1980), pp. 519-524.

Stable URL:
http://links.jstor.org/sici?sici=0008-3968%281980%2914%3A3%3C519%3APFACIA%3E2.0.CO%3B2-U

*Canadian Journal of African Studies / Revue Canadienne des Études Africaines* is currently published by Canadian Association of African Studies.

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at http://www.jstor.org/about/terms.html. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at http://www.jstor.org/journals/caas.html.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.

http://www.jstor.org
Sun Feb 11 14:05:17 2007

*Revue canadienne des études africaines/Canadian Journal of African Studies*
*Volume 14, no. 3, 1980: 519-524*

## RESEARCH NOTES/NOTES DE RECHERCHE

# Public Finance and Capital Investment: A National Perspective on Colonial Dahomey

Patrick MANNING*

The economic policies of colonial regimes should be measured not only by the standards of the colonial era, but also by the standards of our own day. The problem is how to do national economic analysis for a period before national economic statistics were collected. Indeed, exercises in "national" analysis of colonial Africa are essential if we are to establish the degree of continuity and discontinuity in modern African economic history. The issue has already been addressed with some success for the leading industrial countries[1] and although the paucity of price, output and demographic data will restrict the accuracy and time depth of retrospective estimates of African national statistics, even crude estimates may prove to be of great value in analysis. What follows is a case study of Dahomey, illustrating the type of insight which may be gained from applying a single "national" framework to both colonial and postcolonial periods.

Following independence in 1960, Dahomey experienced deep fiscal deficit, a staggering deficit in its balance of payments, a virtually stagnant domestic product, and a declining per capita income. These disheartening symptoms, which seemed to give support to the geographic and cultural theories of underdevelopment, can be traced instead to the influences of the colonial period. From the mid-nineteenth century well into the twentieth century, the territory of colonial Dahomey achieved an annual growth rate of 2.5 percent in exports and domestic product.[2] But state policies of public finance and capital investment, following the French conquest of the region in the 1890s, subverted economic growth in Dahomey, and by the mid-1930s had reversed it.

The two major thrusts of colonial fiscal policy were growth of the state, in absolute and relative terms, and the creation of a steady revenue surplus, most of which was exported to Dakar and elsewhere, and the remainder of which was placed in reserve funds. From 1890 to 1905, revenue and expenditure of the fledgling French government grew rapidly, thus transferring resources from the private to the public sector, though the levels of revenue and expenditure remained roughly equal to each other.[3] In 1905, however, the establishment of Afrique Occidental Française (AOF) and its government general set a new pattern: the

*Department of History, Cañada College, Redwood City, California.

1. See, for example, Phyllis Deane and W.A. Cole, *British Economic Growth, 1688-1959* (Cambridge: Cambridge University Press, 1964).

2. This is the growth rate, in real terms, of Dahomean export earnings, 1860-1930. I have argued that, especially for the period 1890-1914, this was also the growth rate of the economy as a whole. P. Manning, *Slavery, Colonialism and Economic Growth in Dahomey, 1640-1960* (Cambridge: Cambridge University Press, forthcoming).

3. From 1891 to 1905, government revenue (and expenditure as well) rose from under 1 percent of GDP to over 7 percent, assuming exports to have remained roughly 15 percent of GDP.

government general took, as the basis of its revenue, all customs duties collected in the eight colonies. Since custom duties had provided some 70 percent of total revenues for the colony of Dahomey, that territory's government had to find new resources, for its responsibilities were only minimally reduced by the addition of another layer of government. The government general, in return for appropriating customs duties, provided grants or *subventions* to its constituent colonies. With the exception of two years, 1905 and 1945, the result of this fiscal structure was that Dahomey exported large amounts of revenue to Dakar, averaging some 2 to 3 percent of domestic product each year.[4] In addition to the export of revenue, both territorial and federal governments built up large revenues, collected out of revenue surpluses each year. These were generally deposited in French banks or invested in French bonds, and served to withdraw a further amount of resources from the colony. In the years when reserve accounts were spent, it was usually the case that the currency had been devalued substantially before it was spent.[5]

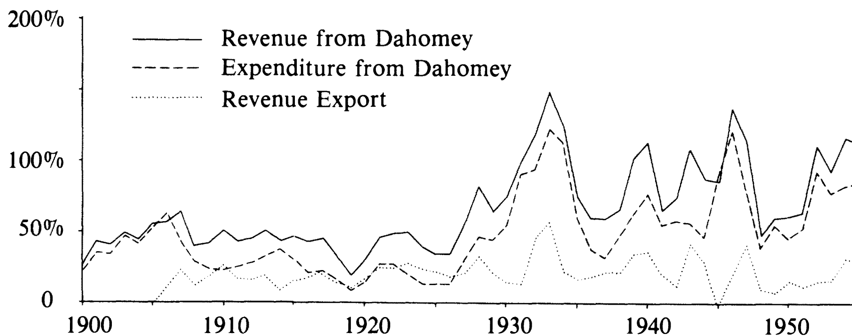


FIG. 1

*Government Revenue and Expenditure, 1900-1955, as a Percentage of Current Export Value*

Meanwhile the relative size of the state, which had stabilized in the early twentieth century, again expanded sharply at the beginning of the 1930s to account for an average of some 80 to 100 percent of the value of exports, or perhaps 12 to 15 percent of the value of domestic product.[6] The relative size of the state again stabilized (while the revenue export continued) until it expanded again with the transition to independence.

The great majority of all investment in colonial Dahomey was domestic (private and public)

---

4. Figure 1 displays this result, which contrasts with most colonial government statements. Figures for AOF and Dahomey have been combined to give total colonial revenue and expenditure in Dahomey. Revenue export is not precisely the difference of these two, because of changes in reserves, which are not shown. Sources for Figure 1 are Colonie du Dahomey, *Compte définitif des recettes et des dépenses du budget local du Dahomey* (Porto-Novo, published annually 1890-1957); Afrique Occidentale Française, *Compte définitif des recettes et des dépenses du budget général* (Gorée, published annually 1900-1957).

5. In some years, the collection of reserves withdrew as much as an additional 0.5 percent of domestic income from circulation. The 1920s, the year 1936 and the 1950s provide examples of the governments of Dahomey and AOF spending reserve funds after they had devalued.

6. See Figure 1. As before, domestic product is estimated on the assumption that exports were 15 percent of its total.

rather than foreign. Expatriate commercial firms invested in construction and in stocks of goods, but Dahomey received virtually no private investment funds for production or infrastructure. The example of railroad construction shows, in fact, how the collapse of an attempt to encourage private foreign investment led to the rise of domestic public investment in infrastructure. Plans for a railroad were drawn up in 1899: government granted a concession to a private company, which was to build and operate the railroad using capital raised in Europe. As the capital failed to materialize, the government renegotiated the concession in 1904, buying out the concessionary company for a very generous 8.5 million francs, undertaking the full cost of construction of the railroad and purchase of rolling stock, and leaving the company to operate the railroad under a formula which guaranteed that it would have no losses.[7]

Public investment thus replaced private funds. Further, the public investment funds were, on net, of Dahomean rather than of foreign origin. AOF did borrow on the metropolitan capital market to finance infrastructure projects: the largest loans were contracted in 1907 and 1931. AOF purchase of the concessionary company was financed out of a loan and refinanced through the 1907 loan; railroad construction from 1904 through 1911 was financed by a loan, current tax revenue, and by forced labor. Whether all this amounted to net foreign investment in Dahomey or any of the territories of AOF depended, however, on the flow of revenue and investment funds to Dakar and Paris. Certainly for Dahomey, the investment of foreign funds in infrastructure never came near to meeting the value of budgetary surplus exported to Dakar. The inflows of public funds were more than cancelled by the outflow of public funds.[8] Even in the period after World War II, when forced labor had been abolished and when the FIDES program led amidst great fanfare to unparalleled public construction in AOF, Dahomey was still a net exporter of public funds each year. The FIDES funds were not simply a French contribution to colonial development, though French contributions were included, but were largely funded by savings out of the current tax revenue from the territories in which investment was to occur.[9] So the phenomenon was again that of domestic public investment rather than foreign investment.

If private foreign investment was barely significant, private domestic investment was the backbone of production. It was all small scale, and most of it was outside the capitalist mode of production, but it was necessary to maintain agricultural and artisanal production. Here the expansion of the public sector restricted the level of private investment. The use of forced labor, which was officially sanctioned until 1946, was another mechanism by which the public sector expanded at the expense of the private sector: the fiscal cost of this labor to the state was low, but the opportunity cost to family farmers, for example, was significant.[10]

---

7. Colonie du Dahomey, *Rapport d'ensemble* (Porto-Novo, 1899-1904); Gouvernement Général de l'Afrique Occidentale Française, *Situation générale* (Gorée, 1907-9).

8. AOF, *Rapport d'ensemble*, 1909; AOF, *Comptes définitifs.*

9. The actual flows of funds for FIDES (Fonds d'Investissement pour le Développement économique et social) may be seen in AOF, *Comptes définitifs*, for the years 1948-56. Writers on AOF have neglected the revenue side of this institution. See, for example, Virginia Thompson and Richard Adloff, *French West Africa* (Stanford: Stanford University Press, 1967), 258, 264; Marcel Capet, *Traité d'Economie tropicale: Les Economies d'AOF?* (Paris, 1955), 198-9.

10. An outstanding user of forced labor in Dahomey before World War I was the compulsive road-builder Antoine Rouhaud. Archives Nationales du Bénin (Porto-Novo), 2-D-41, 2-D-72, 2-D-82.

In returning, with this background, to consider the most severe of Dahomey's postindependence economic symptoms – fiscal deficit, balance-of-payments deficit, and stagnant domestic product – the colonial origins of each may be specified. The historic fiscal surplus was transformed into a fiscal deficit when, with the formation of elected governments in the late 1950s, local government expenditures on salaries and social services rose substantially. Even though customs revenues were returned to the territorial government in 1959, the great leap in expenditures brought about a deficit which became habitual. But what is negatively labelled a "deficit" was, on the more positive side, the first expansionary fiscal policy the government of Dahomey had followed.[11] The net export of revenue was replaced by a net revenue import as France continued to pay a budgetary subsidy to Dahomey from 1959 until the early 1970s. The subsidy was part of a political deal to smooth over the disruption caused by the dismantling of AOF, though in real terms it never approached the level of subsidy Dahomey had given to AOF in earlier years.

The deficit in Dahomey's balance of payments appeared after World War II, as demand for manufactured imports continued to grow in response to their improved quality and lower relative prices, while the level of exports grew much more slowly. Underlying this balance of payments deficit was the weakness and dependence of production in the Dahomean private sector which, in turn, may be related to the extractive fiscal and investment policies of the colonial government.

Finally, the stagnation in the level of Dahomean domestic product and the decline in per capita GDP can be traced to the late 1930s. The peak of Dahomey's economic expansion came in the late twenties and – following the particularly difficult depression years of 1932-34 – the mid-thirties. Then exports fell sharply during the years 1937-49, and domestic product fell by a smaller amount in the same period.[12] Per capita income, measured in real terms, has thus declined ever since the mid-thirties – the opposite of an expansionary trend which had operated for nearly a century.

The negative impact of French colonial rule on Dahomean growth and welfare is unquestionable. But the qualitative conclusion only raises a quantitative question: how great was this negative impact? Addressing this question requires making explicit the economic model implicit in the national perspective: most simply, a variant of neoclassical growth theory with public and private sectors. Included as variables are public and private investment, public and private output, net foreign investment, rates of return on public and private investment in the private sector, and government revenue.[13] The dependent variable is total output, composed of domestic and export output from both public and private sectors.

The most difficult of these variables to estimate, for a test of the model, are the levels of

---

11. The International Monetary Fund's team, in its study of the Dahomean economy, was unaware of the recent change from fiscal surplus to deficit. Nor did Samir Amin catch this point in his brief but insightful analysis of Dahomey. International Monetary Fund, *Surveys of African Economies*, Vol. 3 (Washington, D.C., 1970); Samir Amin, *L'Afrique de l'Ouest bloquée* (Paris: Les Editions de Minuit, 1971).

12. Even in the 1950s, export quantities were lower than they had been in the 1930s, and were only slightly higher than in the 1920s.

13. John R. Hicks, *Capital and Growth* (London: Oxford University Press, 1965), discusses several variants of growth theory.

private domestic investment and output, and the yields of private and public investment. While awaiting quantitative results from application of this model, however, one may consider some of its qualitative properties.[14] The most optimistic possible prediction for Dahomey, under this model, is that the export of two to three percent of GDP annually led to cutbacks only in domestic consumption and not in investment, so that economic growth was unaffected while GDP was minimally reduced. But in a country where income was low, confiscatory taxes and forced labor surely reduced both the level of consumption and the level of domestic private investment, and the latter then lowered the rate of growth. Lacking detailed estimates at this point, one may at least offer a heuristic, speculative example: if the rate of return were invariable, and if the export of revenue led to a decline in domestic investment of as little as 0.5 percent per year, Dahomey's GDP in 1960 would have been 30 percent higher if it had not been inhibited.[15]

Colonial policy, aside from its contractive effect on total domestic output, had an uneven impact among the sectors. High taxes reduced domestic private investment and increased domestic public investment. Assuming the return on private and public investment to have been equal, the steady transfer of investment funds from private to public sectors by high taxation helps explain why the private sector was so weak in the Dahomean economy of the sixties.[16]

This simple two-sector neoclassical growth theory provides for significantly greater realism than the bland assumption that exports or state expenditures may be taken as a proxy for domestic product and economic welfare. The model, in turn, could be refined if it were combined with any of several other approaches. As wage labor becomes more important, Keynesian assumptions on unemployment and the multiplier effect become more relevant. Institutional assumptions appropriate to Marxian theory could be incorporated into the model. The criteria of cost-benefit analysis and welfare economics may be applied to evaluate the impact of colonial policy and the world economy on colonial output and welfare.[17] Alternatively, several negative influences of international economic ties on colonial areas may be investigated through the work of dependency theorists, who give emphasis to the global interdependence of the modern economic system.[18] The prescriptive theorists of economic

---

14. Work on such quantitative study, supported by the Social Science Research Council, is in progress.

15. Assuming that the reductions of actual from potential investment were compounded, and that this resulted in equivalent reductions of output.

16. To be thorough, one must consider the yield from both public and private investment in the same and in the other sector. Where public investment is growing more rapidly than private, if the return on the public sector is higher, then the private sector shrinks even more rapidly; if the return on the private sector is higher, then this policy results in slower growth for the national economy.

17. Richard A. Musgrave, *The Theory of Public Finance* (New York: McGraw-Hill, 1959); Jacques Lesourne, *Cost-Benefit Analysis and Economic Theory*, trans. A. Silvey (New York: Elsevier-North Holland, 1975); A.C. Pigou, *Economics of Welfare* (London: Macmillan, 1932); J. de V. Graaff, *Theoretical Welfare Economics* (Cambridge: Cambridge University Press, 1957); Maurice Dobb, *Welfare Economics and the Economics of Socialism* (Cambridge: Cambridge University Press, 1969).

18. Paul A. Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957); Arghiri Emmanuel, *L'Echange inégal* (Paris: Maspero, 1969); Samir Amin, *Le Développement inégal* (Paris: Les Editions de Minuit, 1973). Colin Leys, *Underdevelopment in Kenya* (Berkeley: University of California Press, 1974), has applied this to post-independence Kenya.

development, finally, have highlighted additional factors.[19] Thus a rich body of theory is available with which to confront the important problem of placing the current economies of ex-colonial countries in historical context.

The Dahomean case illustrates the revision of African economic history which can come from applying a national perspective to the colonial period. While independent Dahomey was discredited for its economic failure, that failure had been rendered inevitable by previous colonial policies; independent Dahomey perpetuated contractive colonial policies to a degree, but it also initiated the expansionary policies of which the economy had long been in need. The French government, which had pictured itself as a source of investment funds and budgetary grants, especially in postwar years, in fact drained the country systematically of funds until the last two years of colonial rule.

If Dahomey is an extreme example, it is extreme only in degree; it is typical of the qualitative impact of colonial rule on economic growth and welfare. In Dahomey, and in many other colonies, colonial fiscal policy and investment policy were regressive, contractive and deflationary, and the deleterious consequences of these policies have extended well into the national period. Such growth as took place during the colonial era resulted from other influences: autonomous domestic growth, technical change, favorable developments in the world market, and private foreign investment. Apologists of colonialism have taken credit for initiating economic growth; in fact the colonial system was a beneficiary of economic growth rather than its creator.

19. Hla Myint, *Economic Theory and the Underdeveloped Countries* (London: Oxford University Press, 1971); W. Arthur Lewis, *Theory of Economic Growth* (London: Allen and Unwin, 1955); Albert O. Hirschman, *Strategy of Economic Development* (New Haven: Yale University Press, 1958). G.M. Meier, *Leading Issues in Economic Development*, 3rd ed. (New York: Oxford University Press, 1976), provides a good survey of current concerns among development economists.