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WADAN NARSEY

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British Imperialism and the Making of Colonial Currency Systems

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Foreword

How did Great Britain manage to sustain its financial supremacy in the international economy that expanded so rapidly in the latter part of the nineteenth century, while also maintaining its commitment to keeping the pound sterling fully convertible into a fixed amount of gold? Somehow it managed this despite the gold reserves of the Bank of England lagging increasingly behind those of its competitors for trade and empire: France, Germany, and the United States. Various answers to this nagging question have been proposed by analysts over the years, starting with Walter Bagehot's classic work, *Lombard Street: A Description of the Money Market* (1873). Financial historians continue to devise more answers based on intensive analysis of the financial data that were generated by the financial press and by delving into the financial archives of leading banks and investment houses. Most of them propose some form of ongoing financial innovations, whether gold devices, central bank cooperation, or *de facto* gold exchange standards to explain how Britain managed this remarkable run of financial fortune. (*Mea culpa* as well!)

Wadan Narsey proposes an alternative, based on his research into the recondite archives of the Public Records Office, Kew (London). Simply put, Britain husbanded its gold reserves by keeping its subordinate colonies on silver standards, circulating token coins containing less-than-market value of precious metal. This policy began with the Glorious Revolution of 1688–89 and the Great Recoinage that followed in 1696; it continued thereafter right up to the height of the British Empire with the African colonies in 1884. The breakaway of the American colonies and their later success with full-bodied silver and gold coins, however, forced the British government to allow similar coinages in the self-governing, white-settled colonies, while keeping Asian and African colonies on token currencies, backed unnecessarily by excessive holdings of British government securities.

The trauma of the Baring Crisis of 1890 put the Bank of England and Treasury into crisis management mode, moreover, leading to the general imposition of currency boards in all the dependent British colonies, currency boards that continued to prove their usefulness for financing the home country through two World Wars and the Great Depression. By keeping 110% backing for the colonial currencies in the form of short-term British government securities and liquid deposits with the Bank of England, the currency boards in the dependent colonies helped sustain home government finances but stifled the colonial economies. The later successes of currency boards in Hong Kong and Singapore after de-colonization are due

to their freedom from imperial control, not the inherent virtues of fully backed currencies.

Political forces are always present in the fields of money and finance, and Professor Narsey's research shows how imperial priorities took precedence over native desires for economic development throughout the history of British colonial currency systems. This was an undesirable, but fully intended, consequence of imperial financial innovations in the British colonies.

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Preface

This book is based on a DPhil I began in 1981 at the Institute of Development Studies (Sussex University) on Fiji's colonial and post-colonial monetary and banking system. However, initial historical research at the Public Records Office (Kew) turned up enough anomalies in existing accounts to warrant a 'leap in the dark' to a topic covering the entire British colonial empire. Returning to Fiji in 1984, it took another four years to complete the thesis, battling political distractions such as military coups. I thank The University of the South Pacific for giving me study leave, and I thank Charles Harvey and David Evans, my supervisors at IDS.

I regret that I wasted Palgrave Macmillan's 1990 offer to publish the book because of my preoccupation with local development issues. It is a minor miracle that 25 years later this study has not been superseded by other works, while some have enhanced my book.

This last revision was begun while I was an adjunct professor at The Cairns Institute (James Cook University, Australia), an appointment assisted by Professor Hurriyet Babacan (then director of TCI) and Professor Robbie Robertson (Head of Social Science at JCU). Based in Fiji, I am grateful to the online services of the JCU Library.

Professor Salim Rashid was kind enough to put me in touch with Professor Larry Neal (Emeritus Professor of Economics, University of Illinois) who I cannot thank enough for his valuable advice on restructuring the book and on recent new sources, for writing the Foreword, and generally facilitating this publication with Palgrave Macmillan. I am grateful for the efficient facilitation of the editorial and production activities by Vidhya Jayaprakash (Newgen Knowledge Works Pvt Ltd), and the excellent copy editing by John Bowdler (Bowdler's Editorial).

During the course of my research I appreciated British academics (such as J. Mars, Arthur Hazlewood and Thomas Balogh) who wrote bravely about Britain's exploitation of colonies. I appreciate today the many honest British imperial civil servants who opposed their superiors, when imperial decisions were not in the interests of the colonized peoples, and left a 'paper trail' so useful to me in clarifying the true nature of imperial decision-making. It is a lesson for civil servants in today's Third World, including Fiji.

I remember that 25 years ago, my wife Sin Joan Yee and three sons (Siddhartha Weih-jen, Sugata Weih-men and Amitaabh Weih-len) took on more than their fair share of the burdens of a young family, while I was struggling in Fiji, to complete the original thesis. I will always owe a debt

to my parents, Maniben and Narsey Bhai Dullabh, who sacrificed much for their children's education.

I remember my good Fijian friend, the late Nand Kisor Chetty, who used to vainly pester me to publish my book. I thank Kurt Schuler (Senior Fellow at the NY Centre for Financial Stability and a currency board scholar) for his recent encouragement to publish my thesis which he read twenty years ago.

I dedicate this book to five individuals. The first two are Poet Laureates John Masefield ("A University, Splendid, Beautiful and Enduring") and Nobel Laureate Rabindranath Tagore ("Where the Mind Is without Fear"). Their words guided me for decades while teaching at The University of the South Pacific. The third was much more than a mere economist: B. R. Ambedkar was one of the authors of the Indian constitution and more importantly became a heroic leader of the 'untouchables' in India, where universities are named after him. The fourth is Aung Sang Suu Kyi, Burmese freedom fighter who after decades of struggling has finally achieved a democratic victory in the 2015 elections and will hopefully form government in early 2016 ("one has no right to hope without endeavor"). The fifth dedication is to my wife, Sin Joan Yee, who for decades has stoically put up with all the social fall-out resulting from my free economic, political and social commentaries, not easy in a small society like Fiji where she also has led her own independent professional and public life.

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List of Abbreviations

CA	Crown Agents
CEAC	Colonial Economic and Advisory Committee
CO	Colonial Office
EACB	East African Currency Board
EEA	Exchange Equalization Account
JCF	Joint Colonial Fund
PRO	Public Records Office (Kew Gardens, London)
WACB	West African Currency Board

1
Introduction: The Accepted History of British Colonial Currency Systems and the Key Questions

Introduction

It might be surprising that anything substantially new can be written about the monetary and financial impact of British imperialism. Yet the standard authoritative works on the British Empire, such as Lawrence James' (1994) (*The rise and fall of the British Empire*), Niall Ferguson's (2002) (*Empire: the rise and demise of the British world order and the lessons for global power*), Robert Johnson's (2003) (*British Imperialism*) and Philippa Levine's (2007) (*The British Empire: sunrise to sunset*) do not have a single reference to currency or money in their indexes. The one exception is *British Empire*, edited by P. J. Marshall (1996) which not only has six references to 'currencies' in its index, but a chapter by D.K. Fieldhouse (1996:111) has a box titled 'Money – an imperial tool?' This book is effectively an expansion of that one question, tracing the historical evolution of colonial currency systems throughout the British Empire, over a period of some 300 years to the end of the 1950s.

This book is not an attempt to answer grand questions such as 'was British imperialism positive or negative for the colonized countries and people', as was the objective of Davis and Huttenback (1986) and as discussed further by Niall Ferguson (2002, 2003). Rather, it presents a long-term historical account of imperial policies on the most fundamental and essential instruments of capitalist market processes in colonies – currency and money, and associated institutions such as banks and central banks – whose long-term impact on capitalist growth and development may be theorized even if virtually impossible to quantify and summarize in cliometric studies.

In the process much material is presented, which will no doubt be used in the imperialism debate by those more qualified and interested. In exploring the internal imperial debates over changes in colonial currency policies, the book also gives many pointers on the likely developmental impacts on the colonial economies and people, as well as clarifying the roles of imperial

interests, British Government (Colonial Office and British Treasury), the Bank of England and the City beyond.

A new chapter, on the contrasts with the imperial relationships and experiences of the white settler dominions (Chapter 9) widens the scope of the normal economic debate to include possible alternative paths for colonial development and the limitations created by the role of racism in imperial policy, as explored by Olivier Accominotti et al (2009).[1]

The London institutions influencing colonial currency policies

Ordinary readers need to be aware of the legal positions of the several institutions that feature prominently in this book in relation to colonial currency changes. There is little doubt about the theoretical responsibility of colonial governments and the Secretary of State for Colonies in London, for colonial welfare. However, grey areas emerged when it came to the Crown Agents who were supposed to act in the interests of the colonial governments, but were supervised by the Secretary of State. To what extent did the Secretary of State for Colonies (and the Secretary of State for India) at critical times become subordinate to the British Treasury on colonial matters? To what extent did the Treasury at critical times become subordinate to the Bank of England?

The Bank of England was in this period a profoundly strange beast, supposedly private, but also fulfilling a public role as the accepted regulator of the London money market and critical in the issue of British government debt. Its shareholders and directors faced the perpetual tension that its profits were considerably lower the higher were the reserves it kept for the system at large. By contrast, other private financial institutions in London enjoyed considerably greater profits without the public responsibility that the Bank had for holding reserves that maintained sterling as world currency and the City as the center of world finance.[2]

At the turn of the century when the currency boards were being created, the Bank of England was by far the most powerful bank in Europe and the world, and the financier of the British Government for centuries, in war and peace. For the Bank of England the value of colonial sterling reserves cannot be underestimated, and by extension also for the other British banks who would otherwise have had to increase their reserves with the Bank of England to keep their systems going.

The role of the City in financing world trade and the holder of the world's savings also depended on the confidence that the world had in the Bank of England ensuring the convertibility of sterling.

The British Government also had its own tensions with the Bank, which was its main lending institution, but also complemented the British Government's international political strength which was dependent in turn on that of the City in world finance. Bagehot (1873) notes the extraordinary

silence of Parliament and the public on the role of the Bank of England and its powerful directors. The Bank also had its tensions with the other commercial banks, who expected the Bank to be a lender of last resort, sometimes when the Bank would rather let an irresponsible bank collapse.

The key changes

The history of currency and money in British colonies is as complex as their political histories. Some colonies had been wrested from other imperial powers who had already circulated their own national and international currencies; some, even after British colonization, continued to have strong economic links with non-British territories and their currency systems through 'currency areas'; and there were some colonies where the authorities chose to make use of existing non-British units of account while changing the inherent nature of the currencies.

While Britain had adopted the gold standard for itself well before the 1816 formal legislation, one major conundrum was that throughout the nineteenth century and well into the twentieth century, colonial requests for gold standards similar to Britain's own were rejected by imperial authorities and where they already existed, were eliminated. While most British colonies had ended the eighteenth century with non-British currencies (such as Spanish dollars and doubloons, Indian gold pagodas or rupees), these were replaced over the first half of the nineteenth century by silver tokens minted under British authority: British Indian rupees, British dollars, or most commonly, British sterling silver tokens.

The established histories identify two nineteenth century colonial currency policies preceding the currency board stage. First, there was an 1825 change of policy completed between 1838 and 1844, supposedly designed to ensure that the British shilling circulated 'wherever the British drum was heard' (Hopkins, 1970, p.104). Second, there was a 1838 replacement of this supposed 'monetary jingoism' by a 'more neutral policy' which acknowledged the existence of 'currency areas'. Hopkins argued that this change was 'fully in accord with the mid-Victorian view of peaceful penetration; if sterling replaced other currencies, as in some parts of the world it did, well and good, but no direct pressure was exerted to ensure that this happened'. According to this view, in some parts of the colonial empire, the authorities supposedly found that it was impractical to circulate British sterling based on the gold standard. In India, Ceylon, Uganda and Mauritius, they found their solution to lie in the silver rupee. In others like Hong Kong, Singapore and Malaya, they minted silver dollars. One paradox to be explained is that Britain herself adopted a gold standard, while imposing silver standards and coins on her colonies, British and non-British.

At the beginning of the twentieth century, the imperial authorities then also eliminated the British silver token currency, which had been freely

circulating within and across colonies and even into foreign territories. Most colonies were moved towards the 'currency board' system. The currency board was formally established in British West Africa in 1912, following the Emmott Committee of Inquiry. This West African Currency Board (WACB) was then presented as a model for most other colonies throughout the British Empire. A similar system was formally established for the British East Caribbean colonies, even as late as 1950. Many monetary historians have described the colonial currencies as 'gold standard' or 'gold exchange standard' or 'sterling exchange standards', all descriptions challenged by this study as being inaccurate or outright wrong.

The essential features of the currency board were the following:

- the circulating coin had to be a distinct colonial silver *token* of unlimited legal tender;
- colonial currency could be issued only in exchange for sterling or gold;
- while ostensibly on gold exchange or sterling exchange standards, authorities insisted on a reserve of silver coins in the colony for the alleged 'local redemption' of colonial notes;
- the colonial currency was backed by at least 110% sterling and gold reserves held largely in London, as note guarantee funds, coin guarantee funds, gold standard reserves and exchange funds;
- for long periods of time, a minimum proportion of the reserves was required to be held in London as gold coins, although banned from circulating in colonies;
- London reserves were invested in cash at the Bank of England, British Treasury Bills, or sterling securities, mostly of the British Government;
- the colonies also accumulated Depreciation Funds to the value of 10% of the Note Guarantee Fund, supposedly to insure against depreciation of the securities;
- colonial government revenues bore the ultimate liability for redeeming all colonial currency.

There were clearly many solid advantages to the currency board system especially during periods of monetary instability. In the 1980s some monetary authorities, such as Singapore and Hong Kong, did experiment with re-establishing currency boards, but based on the US dollar, not sterling as originally. During the 1990s, there was a resurgence of international interest led by Professor Steve Hanke, Co-Director of the Institute for Applied Economics, Global Health and Study of Business Enterprise, at the Johns Hopkins University.[3] As part of this exercise, some central European countries also experimented with currency boards as a solution to the monetary instability and allegedly superior to central banks. Although this study ends in the 1950s, Chapter 8 has a section commenting on this book's lessons for the debate on these recent experiences.[4]

There are two conundrums associated with the imperial creation of the currency board system. The first was that Britain, despite having complete political, administrative and economic control over colonies, did not establish its own sterling currency as the colonial currency right from the time she had formalized that system for Britain in 1816. On the contrary, Britain rigidly opposed its introduction in her colonies, despite all the obvious advantages: the usual text-book functions of money would have been adequately satisfied; the colonies would not have required any separate foreign reserves, exchange rate, or currency authorities; and there would have been many advantages to colonial trade, both regional and international, of having a unified Empire-wide market, as well as a sterling currency accepted by all neighboring territories and globally, given sterling's role as world currency.

With respect to the first conundrum, Fieldhouse (1981:61,63) argued that there were three obstacles to Britain's currency being used in her colonies: 'First, European denominations were not necessarily suited to the needs of poor communities which needed coins representing very small values. Second, so long as coins had intrinsic metallic value and colonial paper money was not legal tender, it was necessary to transport large amounts of coin to settle balance of payments accounts. Third, many of the more advanced European possessions, particularly those in North Africa and Asia, had their own pre-colonial currencies which it would have been pointless and difficult to replace'. Fieldhouse concluded that for these and other (unstated) reasons, the British authorities opted for local but convertible colonial currencies, tied to that of the metropolis. These arguments are challenged by this study.

The second conundrum was that if sterling was not to be used in colonies, why were the colonial currency systems not modeled on Britain's own sterling system, as indeed frequently called for by British interests in colonies? While sterling had originally been a currency based on silver, the pound had *de facto* gone on to a gold standard from 1660. The British Mints were closed to silver from 1774 and in 1816, the British silver coins were made into tokens, with their legal tender limited to £2. From 1816 to 1914, a critical period for most of the colonial currency policies we discuss, the British pound was a *gold standard currency*, consisting of a circulation of Bank of England notes and gold sovereigns, with silver coins which were of limited legal tender. The Bank's notes had a fiduciary portion backed mostly by British Government securities, corresponding to the minimum normally required for local circulation, and referred to in currency board debates as the 'hard core'. Notes issued over this limit were required to be fully backed by gold. This fiduciary limit was set by the 1844 Bank Charter Act at around £14 millions and had only increased to about £20 millions by the twentieth century. However, after 1914, these limits were effectively circumvented by the issue of fiduciary Treasury notes whose circulation reached more than

£300 millions before 1918 and was allowed to grow along with the needs of the British economy.

Had similar policies been followed for colonies before 1914, they would also have had a gold standard currency (whatever its name) consisting of notes and gold coins, comparable to Britain's own gold standard. The 'hard core' of notes required for purely local circulation, which in colonies the authorities estimated to be around 80% of the total circulation, could have been backed by colonial government securities, and the remainder by gold or sterling. There would have been some elasticity in the issuing of currency, according to the growing needs of the economy and colonial government expenditure. While gold and foreign reserves would undoubtedly have been necessary, they would have been much less than 100% of the total currency circulation, and probably less than 50%, as the currency experiences of most colonies indicated, especially given the balanced budget policies enforced on colonies by Britain. This study shows that such systems were indeed often proposed by colonies (both colonial governments and private interests) but were also invariably rejected by the imperial authorities.

Studies of colonial currency systems have probably not tried to explain why they differed from Britain's partly because of a natural reluctance to compare economic conditions of 'underdeveloped' countries with those of 'developed' countries.[5] However, if the policies were significantly different in the same period, then this does need explanation. If the differences were the result of the *same principles* applied to *different colonial conditions*, then any undesirable features might be explained as the result of an inadequate imperial understanding of currency principles or colonial conditions. On the other hand, if the differences resulted from conscious decisions to not apply the same principles despite their suitability, then there are likely implications for the debates on imperialism and colonial underdevelopment.

Progressive evolution or monetary regression?

There are two broadly opposed sets of explanations for changes in British colonial currency policies. The first and the largest body of literature of which Fieldhouse (1981) is a leading exponent, suggests a natural 'stages' sequence of progressive monetary development akin to W.W Rostow's model of stages of economic development beginning with a primitive society and ending with a mature developed modern economy. Firmly rooted within neoclassical economic theory, this literature explains the colonial monetary history as one of modernization of primitive and inferior currency systems, with every successive currency being better able to satisfy the basic functions of money, leading to greater monetary integration of colonies with the metropolitan economy and world trade.

For instance, Letiche (1974:186–87) saw the first stage having a diversity of local media of exchange, appealing to the taste and convenience of the

local population; the second stage saw consolidation into a single unit and monetary standard based on coins; the coins then were gradually replaced by private and government bank notes, convertible into local legal tender; with the establishment of the currency board in the fourth stage, the notes became convertible into sterling in London; in the fifth and last stage, the colonial territories achieved political independence and established their central banks and completely controlled their currencies.

A second set of explanations sees colonial currency policies as manifestations of imperialist control of colonial economies, safeguarding the interests of the colonizing power rather than that of the colony. De Cecco (1974) and Nabudere (1981) are two good exponents of this view. Within this approach may also be situated much of the academic criticisms of the currency board system and the negative impacts on colonial welfare, that emerged during World War II and in the decade after. This debate is reexamined better in Chapter 8 following the historical evidence presented in this book.

A recent study quite relevant for this book is Helleiner (2003:163–4) who used a rational theoretic approach to explore four sets of possible motivations in the making of national money: transactions costs, macro-economic influence, seigniorage, and political identities. Helleiner argued that 'the desire to minimize transactions costs was linked more to a desire to foster intra-empire economic transactions as well as the construction of an export-oriented economy designed to serve the colonizing country'; that while monetary reforms may have bolstered seigniorage profits for local authorities, they undermined the local economic elite; that while monetary reforms were intended to bolster political identities, these were not nationalistic ones, but rather identities being promoted by the ideologies of imperialism; and that while monetary reform created inter-colonial currency blocs, they reflected not the usual objectives of currency unions, but imperialist goals of simplifying administrative rule and fostering inter-colonial commerce. Unfortunately, while Chapter 8 of Helleiner (2003) is titled, 'The monetary dimensions of imperialism: colonial currency reform' and the book is titled *The Making of National Money: territorial currencies in historical perspective*, there is no sustained historical analysis in the book to support his arguments.

This study, by exploring the detailed internal imperial official correspondence[6] revealing the motives behind imperial decision-making on colonial currency policies, will provide a solid historical foundation for Helleiner's theoretical conclusion that while some elements of colonial currency systems were common, others were different because colonial monetary reforms were driven by the interests of the imperial power rather than by those of local policy makers.[7]

This book may be seen as a 'revisionist' history of the origins and evolution of colonial currency systems throughout the British Empire from the beginning to its end around the 1960s. The new historical perspectives have a

powerful bearing on most issues academically debated about the origins, the logic and the imperial management of the currency board system formalized in 1912. The historical evidence clarifies the actual thinking and motives of the imperial decision-makers, principally the Colonial Office, but strongly directed by the Treasury and Bank of England driven by their own objectives and priorities. Also documented are the deliberate imperial attempts to influence academia in defense of imperial currency and monetary policies for colonies. In the process, a rich and detailed historical perspective has been presented on the monetary aspects of the British Empire and possible impacts on colonial development and underdevelopment, thereby informing the broader economic, historical and political debates on British imperialism.

The generalized misconceptions corrected[8]

To rebut each and every 'modernizing' explanation of British colonial currency systems would be tedious and repetitive. It is more useful to present a set of 'Generalized Misconceptions' which, while not present in all modernizing accounts, reasonably reflect the aggregate set of rationalizations to be found in previous histories of British colonial currency systems as far apart as West Indies, the Falklands, Singapore and Fiji.

As is usually the case, conclusions by some reliable historian who accepted imperial rationalization at face value are repeated by subsequent studies until it becomes dogma. Often the incorrect views appeared rational partly because they coincided with the general view that colonization was an economic process of 'progressive modernization' and partly, as this study shows, imperial authorities had eliminated the alternatives and restricted the choices for colonies.

The misconceptions are grouped under the sub-headings below, which broadly correspond to the chronology of colonial currency development, and the chapters in the book. This book shows that all these Generalized Misconceptions are wrong.

Pre-currency board changes

Generalized Misconception 1. In the nineteenth century, because of the colonies' lack of demand for higher valued gold, Britain eliminated all gold coins, British and foreign, and imposed silver currencies and silver standards based on silver reserves, preferred by colonies, and more suitable for poor countries, requiring coins of low value and denomination.

The contrary reality may be more accurately described as 'silver imperialism', by which Britain, in its own interest, itself adopted the gold standard or the gold exchange standard but in colonies eliminated gold circulations and standards where they existed, while simultaneously imposing depreciating silver on her colonies, either as silver standards or limited sterling exchange standards during the currency board period.

Contrary to the popular view, the transition of Britain to the gold standard was not an accidental or automatic process but the result of deliberate decisions by the imperial state, at least from 1717, on the relative valuations of gold and silver coins, to ensure that silver did not re-establish itself in Britain. It was well recognized that gold's advantage of savings in weight and volume per monetary unit was relatively unimportant in an age of paper currency and bank deposits.

The imperial authorities consciously rejected a silver standard for Britain itself, arguing that silver had historically depreciated relative to gold and was more likely to do so in the future, especially if other metropolitan countries, following Britain's example, also demonetized it. They argued that silver was inherently inferior to gold as a standard of value, means of payment and store of value. Yet all these disadvantages applied equally to the colonies, which were forced by Britain into absorbing silver as currency and reserves.

Contrary to official claims, gold coins, both foreign and British, did originally circulate in colonies as far apart as West Indies, India, the Straits, West and East Africa. They were also clearly preferred to silver currency, by both foreign and local interests in the colonies, as universally accepted means of payment and excellent stores of value. These gold circulations were all eliminated by British policy.

It will be shown from the Reports of the British Gold and Silver Commission, and also the views of experts such as Jevons[9] (who also advised other metropolitan countries[10]), that an international bimetallic agreement was desirable and feasible. There was consensus that the fundamental objective of a stable and just international monetary standard was better satisfied by bimetallism rather than the narrower and appreciating gold standard which many thought favored creditors at debtors' expense, both at the level of nations, and individuals. Imperial expert Hawtrey (1927:83) had himself concluded that the defects of gold and silver as standards of value in the nineteenth century 'have been attributable to causes within human control'.

The international monetary conferences revealed that Britain and the other metropolitan countries were all opposed to having a united monetary standard with their colonies, and it was primarily Britain's position which led to the metropolitan rejection of bimetallism at the international monetary conferences of the late nineteenth century, the metropolitan adoption of the gold standard and rejection of silver, and the subsequent long term depreciation in the gold values of silver. It was clear also that all other metropolitan countries recognized the disadvantages of absorbing silver while Britain remained on a gold standard.

The metropolitan countries all recognized that whatever monetary solution was adopted for themselves, the colonies would not be allowed to have either gold or bimetallic standards, but must continue to absorb silver.

Even as late as the 1930s, Britain, while fully realizing the impossibility of the international remonetization of silver, continued to dump much of the world's production of depreciating silver into India, China and other colonies. Imperial concerns again were markets for British exports and the disadvantages for Britain of holding silver. Britain ensured that India did not sell her surplus silver on a large scale, but continued to absorb silver as currency or into private hoards, in order to help stabilize the price of silver and to reduce Indian demands for gold from the London money market.[11]

The British authorities were very much aware of the continued losses faced by Indians, whose savings were in the form of silver ornaments or bullion, and whose rupee value kept falling.[12] Even with surplus silver stocks in the hands of the Indian Government, Britain seemed to be implementing deals which meant that India absorbed more silver in the late 1930s, while giving up gold to Britain.[13] During World War II, Britain seriously considered the production and sale of silver (and to a limited extent, gold) trinkets in colonies at prices which would be many times their intrinsic values, with the objectives of fostering supplies of raw materials while absorbing with a massive profit, the resulting purchasing power in the hands of colonial natives.[14]

De Cecco's view (1974:44) was that the silver-absorbing countries 'became the objects of international arbitrage to deprive them of gold' and followed Keynes' interpretation in seeing the debate on bimetallism and silver as a struggle between debtors and creditors, industrial entrepreneurs and importers of manufactured goods struggling against producers and exporters of primary commodities. De Cecco concluded (1974:58) that in all the metropolitan countries, 'industry prevail[ed] over agriculture, creditors over debtors ... faithfully mirrored by events in the various monetary systems'.[15]

This 'silver imperialism' continued well into the twentieth century and deserves further research as to the precise City interests who gained from this silver export to the colonies, and their relation to imperial decision-making. Certainly, it would be easy to interpret it as a mechanism of imperialism, as defined by Griffin and Gurley, whereby Britain (and other metropolitan countries) directly and explicitly gained at the expense of the colonies and neo-colonies. This also indirectly undermines Schumpeter, who argued that under free trade there could not be any conflicts of interest between nations or classes.[16]

Generalized Misconception 2. During the nineteenth century, Britain tried to implement a uniform sterling currency (based on the British gold sovereigns) throughout the British Empire, but failed because of colonial preferences for silver currencies, including British silver.

While British sterling would have ideally satisfied all the ideal monetary functions in the colonies and this was universally recognized and desired in colonies, it was banned outright or eliminated indirectly by unfavorable currency valuations.

When British silver or British dollars were being imposed on colonies, the authorities gave guarantees that the British coins (whether dollars or shillings) were really sterling by another name and would be fully convertible into sterling in London. Nevertheless, there was an imperial assumption that these silver coins would never return to Britain to be redeemed for gold or sterling proper, and to discourage that possibility, the British silver coins were made into 'tokens' with a significant seigniorage taken out so that the bullion value was always less than the face value. There was even an expectation that should natives melt these silver coins into bullion, this would be a non-reversible process, to Britain's advantage.

In contrast to Britain's adherence to Lord Liverpool's dictum that to ensure international acceptability, no seigniorage should interfere with the sovereign's function as a standard and measure of value, in colonies the imperial authorities deliberately weakened colonial currencies as standards of value by taking out a significant seigniorage, and circulating tokens only. This policy, as with Indian rupees and British dollars and shillings, ensured that they were discouraged as regional and international means of payment based on intrinsic silver content.

The imperial authorities demonetized competing currencies, while also demonetizing the silver bullion savings of inhabitants by closing the mints to the public. All colonial currencies were separated from objective standards, with their values being maintained through artificial scarcity.

When imperial authorities recognized that there was a possibility that regionally acceptable British silver might be returned physically to Britain, they established the Emmott Committee of Inquiry for West Africa to introduce completely new localized silver coins, for which Britain could deny any liability and eliminate any possibility of a return to Britain.

Generalized Misconception 3. Britain's fostering of other currencies, such as British silver rupees or dollars, was the result of the authorities' respect for the principle of 'currency areas' and wish not to impose sterling where it was not desired.

The imperial authorities persisted with foreign coins such as Spanish dollars in West Indies or even British rupee coins as in East Africa, not because of their respect for currency areas, but because of strong colonial preference for these coins as essential for their regional trade, and the failure of imperial valuations intended to drive them out of circulation. Eventually, when the authorities were able to, they dispensed with the universally acceptable Spanish dollars, replacing them with British colonial dollars and British rupees, in turn replaced by East African rupees. There was no imperial respect for currency areas, with Britain far more interested in fostering colonial trade with Britain, rather than with neighboring areas.

The imposition of currency boards

Generalized Misconception 4. By the beginning of the twentieth century, Britain could not allow colonies to continue using British silver because there was a danger

that colonies might 'over-issue' currency; there was a consequent danger of British tokens flooding back into Britain, where there was no institution with the legal liability for their redemption, therefore posing the danger of depreciation of British currency and inflation in Britain.

These arguments are completely off the mark: the British Mint had total control over the issues of British silver tokens; British authorities had originally encouraged the colonial absorption of British silver by giving full guarantees of redemption into gold and sterling proper; and there was no likelihood of depreciation of British currency and inflation.

The real imperial fear was that British silver, circulating throughout the world, posed a potential demand on London's gold reserves especially when the depreciated value of the inherent bullion meant a capital loss on any holder, including the British Mint. Imperial officials and British commercial interests in colonies pointed out the hypocrisy of the imperial position, in that having obtained gold or sterling values for the British silver tokens, their refusal to redeem them was a fraud on the holders in the colonies. This fraud continued decades into the twentieth century. British silver in the colonies was ultimately melted down and converted into purely colonial coins, all at colonial expense.

Generalized Misconception 5. The West African Currency Board system, the prototype for others, was the result of the findings of the 1912 Emmott Committee of Inquiry into the currency needs of British West African colonies. The currency systems of the Straits and India were also based on the findings of their respective committees of inquiry.

The historical reality was that the 'committees of inquiry' invariably ignored the views of witnesses, including the colonial economic interests (both British and local) as well as the views of the colonial officials. Some witnesses were 'primed' to give appropriate answers. The committees' 'findings' and recommendations were generally pre-determined, totally as required by Treasury and Bank of England interests, although there were some committee members who had opposing views.

Generalized Misconception 6. While the currency board was to be a full gold standard or gold exchange system, its 'standard' coins had to be of silver because of the suitability of, and historical colonial preference for the lower value metal in the poorer, low per capita economies of British colonial Africa, Asia and the Caribbean.

There was no colonial preference for silver currency. The issue of suitable low value coins could just as well have been satisfied with copper coins. A second best preference was for British silver tokens, which were being accepted across the border; but even that was refused by imperial authorities, for fear of their return to Britain.

Generalized Misconception 7. The currency board system could not have a predominantly paper currency system similar to Britain's, because the colonial peoples were not sophisticated enough to use a paper currency, their transactions needs were not large enough, and there was no significant colonial demand for paper currency.

All the statements here are inaccurate. There was considerable demand for colonial paper currency, which was quite acceptable nationally. Indeed, colonial preference was for paper currency backed by gold reserves in the colonies, not the silver reserves that Britain imposed on them.

The imperial authorities clearly accepted the note issues of private commercial banks (usually owned by metropolitan interests), with extremely lenient reserve requirements, while opposing colonial government paper currency issues, which were ultimately backed by colonial government revenues, hence safe from bankruptcy.

In India, the imperial authorities deliberately limited the success of paper currency through measures such as defining limited circles of issue, ensuring that the Indian notes were not backed by gold reserves in India, and limiting government deposits with them while holding excessive government cash in London, thereby limiting private note issue in colonies.

Behind the discouragement of paper currency was the fear that notes would totally replace silver, which would no longer be required in the colonies, and the colonies might want to insist on gold reserves in colonies. Both would have been against the interests of the City, which profited as suppliers of silver, and was also always in need of gold reserves in London to support their export of capital.

Generalized Misconception 8. A major imperial objective in creating the currency board system was to ensure that the seigniorage profits of currency issue, which were expected to be significant, became available for colonial expenditure.

The seigniorage profit was merely a carrot as an incentive to colonies to change over from existing sterling silver to new localized colonial silver coins. Colonies were not expected to enjoy any significant value from the seigniorage, and for many, the profits were even lower as British silver and other foreign silver coins had to be melted down and reminted into new colonial silver coins, all at colonial expense.

Far from being available for colonial expenditure, seigniorage from the colonial currency issue was to be maintained as gold and sterling securities in London, in order to guarantee convertibility for those who wanted sterling in London. The authorities explicitly expected little to be available for colonial expenditure.

The authorities even saw the success or failure of the proposed currency boards to depend on enough of the new colonial silver coins being melted down by the colonial natives (especially in Africa and Asia), thus forever reducing the gold liability to their bullion content. A massive amount of rupees in

India were known to have been converted into ornaments which, from 1893, could not be directly minted by their holders into new rupee coins.

Generalized Misconception 9 Another major objective in creating the currency board system was to ensure complete confidence in and convertibility of the colonial currency, which had to be backed by at least 110% of gold and sterling reserves – to be held in London, not the colonies.

This was completely a non-argument, given that the colonial currencies originally being replaced were British sovereigns or silver tokens, which had already enjoyed colonial confidence. Even the British silver tokens had been originally given imperial guarantees of convertibility into sterling.

The need to hold 110% of the face value of the notes and coins in colonies, was also totally unnecessary, as authorities had from the earliest times, acknowledged the principle of the 'hard core circulation' just as with the Bank of England fiduciary issue: that a certain minimum amount of currency and deposits would always be necessary for the normal functioning of the economy, would never be presented for redemption, and could quite comfortably be covered by colonial government securities.

The authorities consistently refused to allow backing gold reserves to be held in colonies, because of the fear that they would be demanded for export to neighboring non-British territories, and therefore not be available to the London money market.

Generalized Misconception 10. The 10% (sometimes 20%) margin over 100%, in addition to a Depreciation Fund (worth 10% of the Note Guarantee Fund), was necessary to safeguard the convertibility of colonial currencies, by allowing for capital losses (realized or unrealized) on the sterling securities held in the currency reserves.

All the evidence suggests that this 10% Depreciation Fund was considered by all colonial authorities and interests, and Colonial Office officials to be totally unnecessary, given that the 110% cover was itself excessive.

The Crown Agents had complained that the depreciation in the sterling securities held as part of the currency cover, was due entirely to imperial authorities' insistence on the funds holding short term British Government securities which were usually depreciated because the London money market disliked holding them.

Currency board reserves policies

Generalized Misconception 11. Responsibility for the management of colonial currency reserves lay through the colonial Currency Commissioners, the colonial governments, the Crown Agents and Currency Boards – and ultimately the Secretary of State for the Colonies. There was no overriding influence on the Crown Agents by any other imperial authority.

While these were the official legal lines of authority, the reality was that from the formation of the currency boards, the Secretary of State for Colonies listened to the Treasury, which usually went along with the wishes of the private Bank of England. The Crown Agents were often explicitly over-ridden when their advice went against that of the Treasury, the Bank of England and against British interests.

The colonial governments' instructions to the Crown Agents were also disregarded when the Bank of England dictated otherwise, and colonies were often deliberately deceived or kept in the dark when sensitive imperial decisions were being made in Britain's interest and explicitly against colonial welfare.

Influential Colonial Office decision-makers usually sided with the Treasury and Bank of England in the full knowledge that colonial interests were being sacrificed in the interests of Her Majesty's Government and the City, and some may owe their imperial honors to this service.

Critical academic studies were rejected and publicly argued against, some academics labelled as 'unpatriotic', despite the fact that the authorities had already internally acknowledged the validity of the criticisms. In the imperial interest, the colonial authorities in London went to the extent of anonymously and openly rebutting the academic criticisms, while fostering and manipulating alternative studies.

Generalized Misconception 12. Britain insisted that colonial currency reserves hold minimum proportions of gold coin held in London, because the authorities wished to create gold standards or gold exchange standards in her colonies.

The reality is that imperial authorities maintained non-interest earning gold reserves held with the Bank of England or invested specifically in British Government securities primarily to support sterling. The authorities opposed gold reserves and convertibility in the colonies for fear that the gold would leak out into neighboring territories.

The currency board system was created with the primary objective of *preventing* free and ready convertibility for *all* holders of colonial currency *within* the colonies and the non-British surrounds. While British holders of colonial currency were guaranteed ready convertibility in London, such convertibility had little value for most local holders of the colonial currency, who were moreover discouraged by double conversion charges, as was recognized by the London authorities. The currency board money was intended to *not* have all the advantages that the pound and sovereign had as world money and universal equivalent. They were intended not to be ideal standards of value, generalized medium of exchange, regional means of payment, or efficient stores of value. Colonial currencies were not *'sterling by other names'*, as even Colonial Office officials recognized internally in the 1950s.

Where paper currency was being issued, either by colonial governments of private banks, the imperial authorities ensured that the fiduciary portion was backed by British Government securities, or at worst, securities of private metropolitan banking interests, not colonial government securities or those of the dominions.

Eventually, when sterling went into decline, far from colonial currencies being regarded as completely convertible, colonies were paradoxically regarded as foreign countries whose currency reserves were a potential drain on Britain's balance of payments, even though they were net earners of dollar and gold surpluses used by Britain.

Generalized Misconception 13. Reserves were invested in securities in London, in order to maximize the income from, and most rapidly accumulate the colonial currency reserves, with complete safety.

The evidence is that, even when the system was being created there was no expectation of significant income. During long periods of time, especially after the 1930s, income was minimized in order to ease Britain's balance of payments. There was also no great safety in investing in London, especially when the securities depreciated heavily, when City holders discarded them for safer alternatives.

The evidence indicates that senior Colonial Office functionaries acknowledged that the colonial currency reserves policies being implemented were not in the best interests of the colonies but that of Britain. While colonies were forced to acquire and hold short-term British securities, the white settler dominions were diversifying from London sterling securities to NY dollar securities, once the decline of sterling became evident.

It is clear that imperial manipulations of colonial currency reserves occurred in periods when sterling was going through crises of convertibility, when private holders of sterling, while investing abroad, eschewed the securities which colonial currency funds were required to hold. Thus colonial sterling funds also helped finance British investment abroad.

In the same periods, colonies were themselves restrained from taking loans in the London money market, while the private investors abroad and the white settler dominions were given priority.

The colonies were therefore forced to maximize not only currency reserves in London, but also government cash balances, savings bank funds, commodity stabilization funds, and all others balances over which the imperial government had ultimate authority.

The colonies were therefore forcibly paid a low return on their own funds in London, while a higher rate was paid by them on whatever little they were given permission to borrow.

Generalized Misconception 14. Most of the securities held were those of the British Government on the grounds of liquidity and income, and not part of any deliberate

imperial policy of using colonial funds to finance British Government expenditure. Conversely, there was no deliberate policy of not holding colonial, dominion or other securities.

The evidence is that the Currency Boards and the Crown Agents were pressured into discarding higher yielding sterling securities of the dominions and the colonial government themselves, in order to purchase lower-yielding British Government securities. Then, the Crown Agents and Currency Boards were pressured to move from longs to short term securities, Treasury Bills and even cash, in order to totally minimize the drain on sterling reserves.

Despite the successful experience of some colonies in holding their own colonial government securities, these were gradually reduced and, ultimately, the authorities refused to approve the currency boards or Crown Agents holding colonial government securities of their own or even those of other colonies, as part of their sterling reserves.

The authorities created informal 'rules' whose creation, operation and official demise was deliberately kept hidden from the colonies. The authorities also used indirect agreements in the London money market as well as secret informal 'personal' communication with colonial officials in order to achieve their objectives.

Some colonial administrators readily acquiesced to imperial wishes, explicitly serving Her Majesty's Government rather than that of the colonies under their responsibility.

Generalized Misconception 15. While the original intention of authorities had been to create a 'managed' system like the gold standard or the gold exchange standard, what naturally evolved by experience, practice and according to colonial needs, was a sterling exchange standard, with the diverse sounding colonial currencies really being pounds sterling by other names.

There was never any intention of creating a true gold standard, or a true gold exchange standard. While it was from the beginning a sterling exchange standard, that was neither due to experience or colonial need; indeed, the latter would have preferred full sterling circulating in the colonies. The authorities opposed this more sensible option, as the sterling paper currency (like the sterling silver tokens) would have leaked out into neighboring foreign territories and eventually called on London gold reserves.

The frequent claims that colonial currency was really sterling by another name, were patently wrong.[17] The colonial currencies were consciously designed to be different from sterling.

Currency boards and colonial development and underdevelopment

Generalized Misconception 16. The introduction of British colonial currencies was a modernizing process substituting superior currencies for inferior currencies,

which were not as efficient in fulfilling the ideal functions of money,[18] *nor did they have the desirable qualities possessed by modern money.*[19]

The historical evidence indicates that contrary to Letiche (1974) and Fieldhouse (1981) all the colonial currency changes were regressive by all the standards of an ideal money: as a suitable standard of value, medium of exchange, means of payment, and store of value. While there was no deliberate attempt to cause underdevelopment in the colonies, rather the imperial policy objective was to protect sterling, the capacity to invest internationally, the desire to protect British government interests despite the acknowledged disadvantages for colonies including colonial underdevelopment.

Generalized Misconception 17. The discretionary powers over the issue of currency could not be left safely in the hands of colonial governments; while there was no need to create colonial central banks which could foster monetary development, the British authorities did not discourage such institutions.

There was no evidence that colonial governments, totally under the control of the Secretary of State for Colonies, were ever irresponsible. Yet all the evidence indicates vehement opposition to colonial central banks, even in large developed economies and the monetary markets such as in India. The Bank of England was usually the hidden hand behind such opposition.

Generalized Misconception 18. The currency boards were not in any way intrinsically contributing factors to colonial underdevelopment. This is discussed at length in the concluding chapters.

Generalized Misconception 19. British authorities were not behaving in any exploitative 'imperialist' fashion with colonial currencies, but devising the most appropriate currency and monetary system for the colonial economies and people.

This is discussed in the concluding chapters.

Outline of chapters

Chapter 2 outlines the two centuries of evolution of Britain's own currency between 1698 and 1893, its formal adoption of the gold standard in 1816, and rejection of bimetallism and silver for itself, despite European consensus on the need to maintain the bimetallic system.

Chapter 3 presents Britain's imperial attempts at the replacement of the circulation of all gold and foreign currencies in colonies by silver, its initial attempt to circulate British silver tokens and British silver dollars, and the eventual decision to eliminate all British coins from the colonies. While this study focuses largely on colonies where major changes in colonial currency policy were taking place and of greater interest to Britain-namely West Indies, the Straits Settlements, India, and West and East Africa, there are references to other colonies where similar policy changes

were also occurring. Inevitably, the attempt to picture the whole 'forest' of British colonial currency policies must leave out important 'trees', some of which may be genuine anomalies requiring historically specific explanation. However, the analysis of the entire forest is necessary to correct the misconceptions that still permeate many studies of colonial currency systems studied in isolation.[20] Chapter 3 also describes the major reserves crises in London during the period 1890 and 1914, and the explicit recognition by Britain of the usefulness of the colonial reserves they were creating in London.

Chapter 4 details the major currency changes that had to be enforced in India, the colonial territory vital to the sterling system, to ensure the minimization of demands for gold in London, and the strengthening of gold reserves in London. While some of the material for this chapter falls more logically within Chapter 3 (and vice versa), the territorial separation for chapters is used for narrating convenience.

Similar policies are then traced in the Straits Settlements (Chapter 5), which links to the establishment of the currency board system in West Africa (Chapter 6), which most colonial historians have seen as a model for all colonies thereafter. The actual evidence by witnesses to the West Africa Barbour and West Africa Emmott Committees are shown to be opposite to the conclusions and recommendations of the final Report, which are shown to be fundamentally pre-determined imperial decisions serving imperial priorities, rather than the local colonial views and priorities.

Chapter 7, covering a period four decades later, traces a series of internal conflicts between colonies and Colonial Office, and internal conflicts involving the Crown Agents, British Treasury and Bank of England, over the management policies for the colonial currency and cash reserves held in London. These events are shown to totally undermine the alleged logic in creating the currency boards decades earlier. The historical record points to the protection of sterling as being the central objective of imperial decision-makers at all times, both in its rise and decline.

Central to this protection was the use of colonial currency board policies to maximize colonial sterling balances invested in London (while minimizing their earnings), and the maximization of the holdings of short-term British Government securities, all under the effective control of the British Treasury and Bank of England. Chapter 7 also outlines the imperial response to academic criticisms of the currency board system, including anonymous publications by imperial civil servants, and the fostering of supposedly independent academic studies to counter the academic criticisms, assisted by political pressure on academic institutions.

Chapter 8 is a reassessment of the previous academic debates on the economics of the currency boards, given the historical experience outlined in this book. While somewhat detailed, the discussions and debates may be useful for those wishing to examine similar implications with regard to the

US dollar or other currencies such as the renminbi and euro, as a reserve currency for other countries. There is then a brief section discussing the 1990s advocacy of modern currency boards, argued by some to be a superior alternative to central banks.

Chapter 9 outlines the currency and monetary experiences of the white settler colonies (referred to as 'dominions'), as a contrast and superior alternative to those of the colonies proper. With dominions being allowed great flexibility by imperial authorities explicitly because they were seen as white settler colonies, there is introduced the sociological factor of racism in this history of colonial currency. This chapter draws heavily on a recent publication (Accominotti et al 2009) which brings together many themes in the earlier chapters of this book.

Chapter 10 then discusses the relevance of this book for theories of imperialism and colonial underdevelopment.

There is a section in the concluding chapter recommending a number of new research areas suggested by this book, apart from the old standard monetary questions: important colonies not fully investigated in this book; monetary imperialism in important areas of British informal control such as Egypt and the Middle East; the role of London non-government institutions influential in colonial policy (such as the Bank of England, Crown Agents, other banks and bill brokers); institutional records not investigated in this study, especially those of the Crown Agents, British Treasury, and Bank of England;[21] the role of local colonial collaborating interests; the role of academia in facilitating imperialism; imperial manipulation of official inquiries as a mechanism of formulating imperial policies; imperial policies on banking throughout the colonial empire and the dominions; monetary imperialisms by other super powers; lessons for future world currencies; Marxist theories of money; and need for greater integration of econometrics with political economy.

2

Currency Policies for Britain 1660–1892: Adoption of Gold Standard and Rejection of Silver and Bimetallism

Introduction

This chapter outlines the long term key historical developments in Britain's own sterling currency system, namely adoption of the gold standard and rejection of silver and bimetallism, and frequent inability to maintain rigorous reserves policies for sterling, as the proper context to examine the imperial colonial currency policies.

The pound sterling from its earliest Saxon origin was a silver standard currency based on the pound weight of silver of uniform 0.925 fineness, minted into 240 pennies. Feavearyear stated (1963 pp. 7–9) that this was the 'ancient right standard of England'. Many attempts to mint gold coins had failed primarily because of unfavorable valuations relative to Europe, and inadequate supplies of gold (Kemmerer: 1944, pp.29–34). The situation changed, however, with the 1492 discovery of the Americas and new silver supplies. British currency valuations then ensured that the gold standard informally came into being more than a century before Britain formally adopted the gold standard in 1816 and demonetized silver, except as tokens.

The private Bank of England was established to help Britain finance its wars. Resulting inflation and extensive 'Currency/Banking debate' led to the 1844 Bank Charter Act, which required minimum gold reserves to be held against its note issues. This Act was nevertheless frequently suspended because gold reserves fell to low levels.

With the adoption of the gold standard by other European countries leading to deflation, bimetallism was debated as a more flexible alternative, but Britain adamantly refused to be part of an international bimetallic system proposed by the other major metropolitan powers, while insisting

on imposing silver on her colonies. The international monetary conferences are discussed at length here, as British India was represented and Indian interests in the global monetary solutions may be taken as an excellent proxy for colonial interests in general.

The three centuries to the beginning of the twentieth century saw the rise of Britain and the City of London to international financial and economic supremacy, bringing with it greater control of international flows of gold and silver, with colonies playing a critical role both as suppliers of gold and outlets for silver. Kemmerer concluded correctly (1944:35) that the two centuries before the end of the seventeenth century in Britain 'was a time of quasi bimetallism, in which both gold and silver coins were continually minted and enjoyed the same legal rights as money ... [but] generally the ratios were favorable to silver. Silver money, therefore, dominated' with 'Gresham's Law' prevailing.[1]

Adoption of gold standard not accidental or inevitable

While there is general agreement that Britain had effectively gone on to a gold standard well before 1816, it is very strange that prominent historians were and still are unclear as to how, why and the precise date the transition occurred. Eminent historians Vilar (1969:220) and Feavearyear (1963:152–4) thought that Britain's move to the gold standard was not by any conscious and deliberate act but occurred unintentionally, automatically and even inevitably. Yet for more than a century before the 1816 legislation, there had been powerful forces pressuring the British Government to adopt the gold standard and reject silver as the standard, while there was equally strong opposition who wished to retain silver.[2]

Feavearyear (1963:157) recorded that the 1698 reduction of the guinea's valuation to 21s.6d. faced 'considerable opposition', even though the Bank of England maintained a policy of buying as much gold as it could. However, the 1717 reduction of the guinea to 21s. resulted in 'so much general concern' that the House of Commons passed a resolution declaring that they would not alter further the standard of the British gold and silver coins in fineness, weight or denomination.

A former Master of the Royal Mint (Harris 1757) sought to 'defend and preserve every man's right and property' by opposing a proposal to the British king that gold should be adopted as the standard and silver debased.[3] With a clear indication of the forces fighting to impose the Gold Standard on Britain, Harris accused pro-gold 'bankers, scriveners, money jobbers, Masters of the Mint' of seeking private gain in complete disregard of the resulting dishonor and distress to the country. Harris pointed out that the nation's standard of money was a national concern, not the business of merchants or bullion dealers for whom coins were mere merchandise to make profit from.

While John Locke and Adam Smith thought that Britain was still on a silver standard in the eighteenth century, and Ricardo was unsure,[4] Chalmers (1893:400) held that Britain went on to a de facto gold standard following the 1660 coinage of gold guineas. Given a value of 20 shillings, the gold coin was undervalued relative to Continental Europe, and by Gresham's Law, could not be retained in circulation, until a Royal Proclamation revalued the guinea to 22 shillings, upon which silver flowed out.[5]

Following the Great Recoinage of sterling between 1696 and 1699, the legal valuation of the guinea at 22 shillings implied an English gold–silver ratio of 15.93 to one, compared to 15 to one on the continent, again leading to gold flowing in and silver flowing out.[6] Kemmerer (1944:37) therefore correctly identified the system then as a bimetallic system dominated by gold, whereas it had previously been dominated by silver. Between 1702 and 1717 32 times as much gold (in value) was minted at the Mint than silver.[7]

The 1717 Report by Isaac Newton, Master of the Royal Mint, recommended that, if silver was to be retained, there would have to be a further reduction of the valuation of the guinea to 20s.8d. to equalize Britain's gold–silver ratio with that prevailing on the Continent (Hawtrey 1919:244). However, the guinea was reduced to only 21s. and silver continued to flow out.[8] By the end of 1730 the City was making most of its payments in gold (Clapham 1944:131,138). Feavearyear thought that the complete disappearance of all full-weight silver coins was 'quietly accepted' and by the middle of the eighteenth century, 'it came to be recognized that gold had definitely supplanted silver as the standard', based on a guinea weighing 129.4 gm. at 21s. 0d., or a Mint price of £3.17s.10.5d. per standard ounce, arrived at by adding one twentieth to the old Mint price of £3.14s.2d.

But despite opposition, the law limited the legal tender of silver in 1774 to £50 and strict limits were laid down for the weights and fineness of the gold coins. In 1798, when so much silver had come onto the markets that the market valuation of gold was tending towards the legal overvalued rate, the Mint had to refuse to mint silver coins, and Feavearyear records (1963:187) that an Act was 'at once passed closing the Mint to the coinage of silver', and its legal tender reduced further to £25.

Kemmerer (1944:41) states that between 1797 and 1821, Britain was on a de facto paper money standard based on Bank of England notes, expanded to facilitate Britain's war against France, with a suspension of specie payments. Gold and silver did circulate but at considerable premiums. However, the Coinage Act of 1816 limited the legal tender of silver to £2, making silver into a token by taking out a significant seigniorage, and totally closed the British mints to silver from the public. The 1816 Act reiterated the Mint price of £3.17s.10.5d. for an ounce of gold, thus laying the foundation for the British gold standard based on the gold sovereign (Hawtrey 1950:67–9).

Vilar (1969:285) was therefore wrong in thinking that the 1774 law was 'apparently unimportant'. Both Fetter (1965:58) and Feavearyear (1963:214)

noted that without the deliberate 1774, 1798 and 1816 currency laws eliminating the free minting and full legal tender of silver in Britain, Britain would have reverted to a de facto silver standard if the European gold and silver relative prices had been allowed to be the only determinants. As Ricardo (1817:361) and Hawtrey (1927:69) pointed out, the gold standard existed in Britain only because of gold's relative overvaluation by Britain's Mint Laws, not a matter of choice for the public, nor due to any inherent superiority of gold over silver for a rich country. Silver could equally and satisfactorily have been the monetary standard in Britain. Redish (1988) was quite simplistic in arguing that Britain abandoned bimetallism in 1816 because a gold standard with a complementary token silver coinage 'offered the possibility of a medium of exchange with high and low denomination coins circulating concurrently' and new minting technology that discouraged counterfeiters.

Lord Liverpool's Treatise advocating gold standard

A key text for understanding the forces behind Britain's adoption of the gold standard and equally clear disadvantages for colonies adopting silver as their standard is the Treatise (Jenkinson 1805) by Lord Liverpool who was a member of a 1798 Committee of the Privy Council, charged with laying down the principles for standard and token coins for Britain.[9]

Lord Liverpool had held key positions involved in a wide array of imperial decisions on political, economic, and financial issues impacting on the imperial currency changes: Master of the Royal Mint, Vice-Treasurer and Clerk of the Pell in Ireland, Secretary at War, President of the Board of Trade, and Collector of Customs.[10] He was eminently placed to understand the implications of the international flows of gold and silver, and the British adoption of the gold standard with demonetization of silver. He was directly responsible for the 1774 Currency Law, following which he was made Master of the Royal Mint.[11] While he failed to formally establish the gold standard through the 1798 Committee of Inquiry, the 1816 legislation formally establishing the gold standard was seen through by his son, the Second Earl of Liverpool, who by then had also become the Prime Minister.

The logic in Lord Liverpool's Treatise for establishing sterling as a gold standard currency could have been equally applied to the colonies.[12] It was used during the international monetary conferences to justify Britain's rejection of bimetallism, with serious negative consequences for her colonies. Third, it was simultaneously and incorrectly used to justify the imperial decision to impose silver standards on colonies (Jenkinson, p.4).[13]

Lord Liverpool argued correctly (ibid p.185) that in foreign trade it was 'more portable, more convenient, and more safe, to export the gold coins'. He insisted that no seigniorage profit should be taken out of the gold sovereigns, as that would blemish its role as an equivalent and its accuracy as the

standard of value and principal measure of property. With foreign merchants estimating the value of coins only according to the intrinsic value of the coin, a seigniorage on standard coins would necessarily lead merchants to either raise 'the price of all merchandise and manufactures sold to foreign nations in proportion, or submit to this loss' (ibid, p. 127).

On the other hand, a seigniorage must be taken out of the inferior silver coins, to make them into tokens, whose legal tender should then be strictly limited by law.[14] To criticisms that the seigniorage on the silver might result in an over-issue of silver coins on the market, leading to depreciation and inflation, Lord Liverpool countered that there was no possibility of this since the power to mint silver would be vested by Royal license and strictly controlled.[15]

Lord Liverpool saw money as essentially commodity money, which served both as a standard measure by which the values of all things were regulated and ascertained, and the equivalent itself, by which goods were exchanged and contracts made payable.[16] He argued (ibid p.5) that this dual role was the justification for not having a bimetallic system, giving the classical argument that money could not be a measure and simultaneously an equivalent. If money were to be a measure only, of little or no material value, it could not serve as an equivalent; if it was an equivalent, it was also subject to variations in price and thus failed as a measure.

Totally ignoring the practical existence of the French bimetallic system for more than a hundred years, Lord Liverpool argued (ibid p.9) that, while this problem was present with any commodity money, it became worse when there were two monetary metals, which could in addition vary against each other, as in bimetallism. When the relative Mint prices became different from the market prices, debtors would take advantage of creditors by paying in the cheaper metal. The undervalued coins would then be melted down and exported, with traders making a profit at the expense of the public.

Totally ignoring the essential role played by the state's legal valuations, Lord Liverpool (ibid p.192) argued that Harris's objection to the gold standard might have some validity if the change to gold 'had been brought about by the authority of Government'. Lord Liverpool alleged that the transition to gold had occurred over the previous 100 years with the 'unanimous agreement and consent of the people'.[17]

Lord Liverpool's Treatise, in different parts, quoted contradictory opinions as to whether the King had authority to unilaterally debase the English currency.[18] He noted that historically, English sovereigns had often exercised their rights to set nominal values on coins, but thought it was neither safe nor honorable unless done by the consent of Parliament. But elsewhere, Lord Liverpool dispensed with Parliament altogether, when he claimed (ibid p.162) that in very rich countries gold would become the principal measure of property and the instrument of commerce, 'not only without the support of the law, but in spite of almost any law that may be enacted to

the contrary'. He argued that England's standard of value was determined by the merchants' standards of value and payment and that from 1717, foreign traders and bullion dealers, the 'best judges of the matter', had regarded gold as the principal measure of property in England, and it had consequently become the chief instrument of commerce (ibid p.161).

The 1816 Currency Committee of Parliament concluded that the gold standard was the most suitable for Britain. Oddly, given the public opposition to the Gold Standard, the Committee stated that it was not necessary to explain their recommendation, arguing that such an explanation by Parliament would 'be merely in confirmation of a Principle, already established by the universal consent and practice of His Majesty's subjects'.[19] Yet, historically, popular opinion in Britain had always been opposed to any interference with what was perceived as Britain's ancient silver standard.

Reserves crises, currency/banking debate, and 1844 Bank Charter Act

Discussions of currency policies for colonies must place them in the context of the debates over the powers of note issue of the Bank of England, and its frequent failure to ensure the gold convertibility of sterling. The privately owned Bank of England was established in 1694 after the British Crown went into difficulties over the financing of wars and unilaterally stopped payments on portions of the Exchequer Orders.[20] At its birth, the Bank was initially given monopoly power in the broader London area to issue paper as credit currency, in return for taking over the Royal state debts.[21] Soon after, there was raging inflation and the British pound depreciated on foreign exchanges (Johnson 1970:19–20). Instead of tackling the problem of expanded note issue, the authorities engaged in the costly but futile 1696 Great Recoinage of British silver (Feavearyear:139–40). Country banks of the time also issued their own notes, created deposits and maintained their own gold reserves, but most also used Bank of England notes as reserves. There was therefore a generally unified banking system focused on the Bank of England at the pinnacle, issuing notes, creating bank deposits and maintaining the central reserves of gold to back the convertibility of sterling.

From the beginning, a feature of sterling's gold standard was the frequent crises of external convertibility, due to shortages of gold reserves: the external crises led to internal banking crises, and severe social distress, as reserves were built up by restricting credit. Severe shortages of gold reserves occurred during the American colonial wars in the latter half of the eighteenth century, the Napoleonic Wars, in 1825, during the 1830s and early 1840s, in 1847, 1857, 1866, during the Baring crisis and during the Boer War.

In the early 1770s, a gold reserves crisis was caused by the war over the American colonies and a sudden withdrawal of Dutch capital because

of crisis in Amsterdam.[22] The pressure on gold was only eased when the American war ended. With greater international competition for declining Brazilian gold, and with many country banks over-issuing notes on inadequate reserves, the Napoleonic War started another crisis.[23] The Bank of England stopped sales of gold with many banks collapsing by 1793. Relief only came when the troubled banks and merchants were lent Government Exchequer bills on security of commodities, a policy banned in colonies. The continuing drain of gold for the Napoleonic Wars, internal drains to Ireland and an external drain to France[24], brought about a severe reserves crisis, which led to the 1797 Bank Restriction Act, and forced inconvertibility of the pound, which subsequently depreciated. Feavearyear observed (1963:217) that the inflationary paper issues had not only been financing the war deficits, but also speculation in domestic and international ventures, with large increases in foreign lending.

While the 1810 Bullion Report attributed the significant inflation of the period to the inconvertibility of the excessively issued notes, the Report was rejected by the Government, which nevertheless promised the restoration of convertibility after the war.[25] However, while the 1816 Coinage Act formally adopted the Gold Standard, the Bank of England had great difficulty in accumulating the gold reserves necessary to renew convertibility. Another severe drain in 1817 forced the Bank Restriction Act to be extended beyond the end of the war.

The 1819 Peel Committee and influential members of Parliament, against strong opposition, argued for sound money based on free and total gold convertibility at the old par – known as the 'bullionist' position.[26] By reducing discounts, deposits and note issues, the Bank managed to accumulate enough gold reserves to restore full convertibility at the old higher par by 1821, but at the cost of massive deflation in both industry and agriculture, the collapse of many country banks and their note issues, and severe social crises.

With the continuing problem of uncovered country note issues, yet another major crisis developed in 1825, caused by major speculations in new companies, foreign loans, and commodities. The Bank's gold reserves fell by more than 90% and the Bank was unable to sell even the prime stock of Government or the British East India Company.[27] The Bank restricted its loans and issued £600,000 in one pound notes. Andreades (1966:250–252) thought that notes could replace the gold guineas if they were of small denominations of less than five pounds. Scotland had, since 1704, quite safely economized on gold by circulating notes of small denomination; but these were banned following the Acts of 1826. The Bank's proposal to make its notes inconvertible and for Government to issue Exchequer Bills was rejected by the Government. Following great commercial distress, the Bank was eventually allowed to issue notes beyond its limits, on securities and goods. During the crisis the Bank had large amounts of silver, which it could not exchange for gold with the Banque de France, except at a late stage.[28]

In the late 1820s and early 1830s, with the City finding investment abroad more profitable than possibilities at home, the Bank's gold reserves continued to be drained, exacerbated by the collapse of speculative ventures such as the South American gold mines, and the default of large international borrowers.

The Palmer Rule and its demise

Following the 1825 reserves crisis, an informal 'Palmer Rule' was devised by a Bank of England Governor of the same name. To ensure that sterling was like gold in all respects, the rule required that, when the circulation was 'full' (i.e. when exchange was just turning unfavorable) the notes *and deposits* were to be backed to a maximum of two thirds by securities and one-third by cash (bullion and specie). Any fluctuations in deposits and notes then had to be matched by equivalent movements in specie (Fetter (1965:132). The securities portion was to be held at a fixed level, 'less than the minimum note issue which could be expected to remain in demand', or the 'hard core' concept debated and usually opposed for colonies, a century later.

This rule was, however, abandoned somewhere between 1840 and 1843, with the Bank finding even this mild reserve requirement too costly (Horsefield 1953:52). Horsefield (1953:119) thought that Palmer's rule was modified to refer to only notes, because of Ricardo's view that bank deposits should be disregarded. However, most British banks of the time kept reserves which were only 50% of their notes – usually less than 10% of notes *and* deposits combined. Between 1784 and 1839, the Bank's cash as a proportion of notes and deposits fell below 15% eight times, which included five times when it fell below 10%, the last occasion being in 1839.[29] The Bank found Palmer's Rule quite difficult, if not impossible, to implement.

In the 1840s, new drains of gold developed because of changes in the United States monetary and land laws[30] and large loans for the United States railway boom. These pressures, combined with an increased export of gold to Ireland and problems in Lancashire led to another crisis in 1836.[31] Between 1838 and 1842, more international crises[32] kept emphasizing the vulnerability of London's reserves and position as a financial center of the world (Jenks, 1963, pp. 85–7, 104). In early 1839, the gold reserves of the Bank of England were three-fourths gone, but the crisis was alleviated through the assistance of Paris and Brussels. The enforced borrowing from the recent enemy subjected the Bank of England to severe public criticism and engendered intense debate on the adequacy of its gold reserves.[33]

The currency/banking debate: the 1844 Bank Charter Act

The numerous reserves crises of the eighteenth and early nineteenth centuries, gave rise to the 'Currency/Banking' debates on optimal reserves policy, bank credit and note issue, and their impact on inflation. Although

this debate has many dimensions, the focus here is on its implications for reserves policy for the notes of the Bank of England, which will later be contrasted with the rigorous 110% cover enforced for colonies. Fetter (1965:191) concluded that despite their differences, both the Currency and Banking Schools had one common objective – the maintenance of sterling's convertibility and the gold standard, at any cost.

The Banking School had several strands (Fetter 1965:187–188): first, prices were influenced not only by the amount of coins and notes in circulation, but also the amount of credit created through bank deposits; second, when there was a problem of internal or external drains of specie, it was not sound policy to require bank notes or deposits to be the equivalent of specie; third, as the note circulation was the *result* and not the *cause* of price changes, there was no point in regulating notes as a means of controlling inflation. Fetter (1965:188, 191) argued that while the implication of the first point might have been that the Banking School would have wished deposit creation also to be regulated by reserve requirements, they were actually opposed to the regulation of notes altogether and would have opposed even more any intention to regulate deposits. The latter would not only have prevented the Bank from countering any crisis but might have instigated a crisis if the Bank tried to react to some international problem. The Banking School was of the view that Bank note issues on real collateral would not be inflationary, unlike inconvertible Government notes (Fetter (1965:190–1, 200). Hawtrey (1919: 280, 286–290) attributed the inflation and the severe depreciation of the pound during the Napoleonic wars to the urgent need for the Bank to finance the British Government. He argued that this encouraged the Government to reject the 1810 Bullion Report since to do otherwise 'might have militated against Government borrowings'.

James Pennington, a strong advocate of the Currency principle, argued that that the Bank should hold a fixed amount of securities but allow the note issue to contract or expand only in response to opposite movements of bullion or specie. While recognizing the monetary role of bank deposits, he felt that there were sufficient differences between how note holders and depositors behaved in crisis, and in the public's prejudices and feelings towards notes and deposits 'to make it desirable, in a program that had to pass the political test, to treat deposits and notes differently as regards the need for legislative action'.[34] But Fetter pointed out that, when introducing the Bill for the 1844 Bank Charter Act, Peel had made clear that it was *political realism* and not economic theory which was deciding its provisions.[35]

Anna J. Schwartz (1987), who added the 'Free Banking School' to the 'currency/banking' debate asked a number of pertinent questions: (i) should the banking system follow the Currency School's principle that note issues should vary one to one with the Bank of England's gold holdings? (ii) Were the doctrines of the Banking School (real bills, needs of trade, and the law of reflux) valid? (iii) Was a monopoly of note issue desirable or destabilizing?

(iv) Was over-issue a problem, and who was responsible? (v) How should money be defined? (vi) Why do trade cycles occur? (vii) Should there be a central bank? She concluded, 'The monetary debates that were initiated in the 1820s were not conclusive. No point of view carried the day…. The debate on all the questions in dispute in the nineteenth century continued to be live'.[36]

What stands out is that the protagonists in the debates often could not agree on what the individual schools really stood for hence were often jousting with grey shadows, even on something as basic as what constitutes 'money', claims on money and claims on wealth.[37]

When the Bank Charter Act of 1844 was enacted, it allowed a fiduciary note issue of £14 million with all notes above this to be covered by gold.[38] Thus the gold reserves of the Bank of England could be exhausted only if its note issue fell to £14 millions, a contingency considered highly improbable since it was roughly the minimum amount of notes then circulating in the British economy (Horsefield 1953:120). The Bank of England argued that it was impossible to guard against an *internal* drain, and so its reserves policy was designed only to protect itself against foreign exchange turning against sterling (Horsefield 1953:63).

The 1844 Act and its reserve requirements failed to prevent recurring reserves crises as evident in 1847, 1857 and 1866.[39] With the Bank rate not able to strengthen gold reserves (Dam, 1981: 27), the Government was forced to suspend the 1844 Act and the fiduciary limit in order to avoid the collapse of the entire British banking system (Johnson 1970:33). The 1847 problems were instigated by renewed speculation in national and international railways, bad harvests in England and Ireland and the tendency of British banks to hold more gold reserves than really necessary because of their inability to obtain accommodation from the Bank of England, even on good security.[40] With the Bank refusing to accept silver, and with many sound banks collapsing, the British Government eventually promised the Bank indemnity if its free advances (at 8%) led it to exceed its fiduciary issues (Wiseley, 1977, p 47). In London alone, 33 important firms failed (Feavearyear 1963).

While the Californian and Australian gold discoveries between 1849 and 1851 reduced pressure on Britain's gold reserves, yet another major reserves crisis hit the Bank of England in 1857. With excessive US railway speculation and reserves crises in the American banking system, panic withdrawals of gold in England led to the Bank's reserves plummeting (Andreades 1966, p.347). The 1844 Act was again suspended and some £2 millions of notes in excess of the maximum were issued.

In 1852, by which time there appeared to be no shortages of gold supply, Britain moved towards limiting the legal tender of British silver in some colonies as an interim measure before the introduction of full gold standards. However, by the end of the 1850s when reserve crises again began to

hit, there was once more a reversion to the policy of imposing silver standards for colonies.

Two minor crises, in 1864, were followed by a major one in 1866. While some pressure on reserves had arisen because of the export of bullion to the East for cotton supplies normally obtained in the United States, the major factor was the popular speculation in limited liability companies and the collapse of one of the largest discount companies, Overend Gurney & Co. (Andreades 1966:353–361). In the following parliamentary inquiry, the Bank of England argued that they could not be held solely responsible for keeping the banking reserve of the country, when other banks refused to keep reserves with the Bank.

With the City engaging in major investments abroad, all these crises drove home the message that the Bank had to accumulate gold reserves by whatever means possible.

Rejection of currency board system for Britain

Throughout the early history of the Bank of England, there had been frequent calls for transferring the powers of note issue to an institution completely under the control of the Government and with rigorous reserve requirements, as the currency board was to be in colonies. In 1762 critics demanded to know why and how a private Bank's promise to pay was deemed more important than the nation's (Clapham (1949:79). James Wilson, a Treasury expert and later to become a Finance official in India, had argued that the Issue Department of the Bank of England should be converted into a 'bank of issue' managed by three 'commissioners' appointed by Government (Fetter 1965:200). Ricardo had also suggested a similar scheme (Sayers 1953:91).

One of the alternatives therefore considered before the 1844 Bank Act, and preferred by Peel, was a 'currency board', which was to be independent of Government but responsible to Parliament, and charged with the issue of paper currency convertible into gold (Fetter (1965:183). None of these calls for the formation of currency boards with conservative reserve requirements were successful in Britain, despite recurring problems of convertibility and inflation. British decision-makers had no intention of imposing rigorous reserve requirements on a dynamic growing economy and monetary system even if it led to an over-issue of fiduciary notes. Yet the same restrictive currency boards would be forcefully imposed on colonies decades later.

International monetary conferences, 1867–92: rejection of bimetallism and silver[41]

To better understand the proceedings, and many claims and counterclaims of national representatives to the international monetary conferences between 1867 and 1893, it is useful to first outline the analysis by Marc Flandreau (1996) which established that it was French bimetallism

which maintained gold–silver ratios in Europe and helped Britain to maintain its gold standard, and similar arguments by Milton Friedman (1990) for the United States.[42] Flandreau argues that it was the failure of France and Germany to cooperate in maintaining a viable bimetallic system that led to the eventual depreciation of silver after 1873, while Friedman (1990) similarly argues that US could have successfully taken on the role of France in maintaining the bimetallic ratio but failed to do so. The analysis by E.H.H. Green (1988a) discussed below, also establishes the many links with key protagonists in the colonial currency policies outlined in the next four chapters.

Neither of these two studies addresses the central cause of the breakdown of bimetallism, which was Britain's refusal to support an international agreement. Neither takes into account that Britain and other metropolitan countries, all expected colonies to continue to absorb silver, regardless of what system they adopted for themselves, but especially if they adopted the gold standard.[43]

This section goes into much detail about the causes of the stability and instability of bimetallism and the proceedings of the international monetary conferences, as there is still a surprising lack of consensus in the literature. Clarification of the roles played by key British players also reveals new perspectives on the driving forces behind British colonial currency policies and on British imperialism itself.

The Marc Flandreau reassessment of the European rejection of bimetallism

Marc Flandreau (1996) explains the remarkable stability in the gold–silver ratio of 15.5 for more than a century before 1873 to French bimetallism. However, it was not just due to Central Banks, but to what Jean-Baptiste Say had originally posited: that all agents (private and banks) used the more abundant and more depreciated metal to pay their debts hence the system endogenously ensured that the market rates stabilized around the legal ratios maintained by the bimetallic countries. 'The bimetallic bloc acted as an arbitrageur of last resort for the world monetary system at large, absorbing disequilibria originating on the international bullion markets'. Flandreau noted that France in 1850 held about 2.3 billion French francs (and nine tenths of the bimetallic bloc's total specie holding) while the annual gold production was just 360 million francs: France and its bimetallic system were likely to absorb many gold or silver supply shocks.

Flandreau was critical of four theories that had traditionally been proposed to explain the metropolitan move from bimetallism to gold. First, Flandreau argued against the fundamentals theory that rising silver production would have led to silver depreciation and forced nations to abandon silver. He pointed out that the rise in silver production was proportionately much smaller than the one that had affected gold after 1848, without determining

dramatic changes. Flandreau estimated that France and the bimetallic union could have buffered the changes.

Second, the strategic theory's fears that Germany's adoption of the gold standard and demonetization of its two billion of silver specie would have worsened silver depreciation and led to breakdown was also not justified. Most of France's indemnity of five billion francs, while massive, was paid in bonds and sold to foreign holders, and only 500 millions was paid in gold and silver specie in equal proportions.

Third, the technological theory that silver was bulkier than gold and hence more costly for international payments was simply not true: since transport costs for international transactions were charged not on the basis of weight but value.

Fourth, Flandreau discounted the political economy interpretation that the creditor classes wanted a gold standard as a more stable standard of value, noting that before 1873 the political support in favor of gold was much less homogeneous than what is commonly believed. He somewhat simplistically argued that many French bankers and financiers supported bimetallism, as international arbitrage offered profitable opportunities, and moreover, in the 1850s and 1860s it was gold that was thought to be the 'inflationary' metal encouraging some countries (like Belgium and Holland) to move to silver.

Flandreau argued that, in the 1850s the advantages of having one standard and network externalities encouraged all European countries to favor the currency used by their major trading partner, Britain: hence, the 1867 Monetary Conference agreed on the ideal of the gold standard. According to Flandreau, for France, the advantages of moving to gold were offset by switching costs and feasibility constraints, since it would have had to sell at least one billion francs in silver ecus, from which losses were to be expected; and, if reform did not work, there could have been political fallout. Germany would also have had to sell two billion silver francs and acquire the gold on equitable terms, hopefully without a financially vulnerable France retaliating. Germany did acquire a billion francs in gold between 1871 and 1873.

Flandreau argues that France, having paid its five billion franc war reparations to Germany, and expecting Germany to dump its demonetized silver on France's bimetallic system, suspended its free coinage of silver 'in an attempt to block Germany's move to gold'. It was only then that the price of silver began to fall. Germany could not sell all its silver specie in the market and began to increase its gold holdings (mostly drawn from London) by raising its discount rate. The Bank of France found its silver reserves increasing as holders of silver ecu began exchanging it for gold. Both France and Germany still had large silver reserves they could not sell except at huge losses. The Bank of France also had to provide backing of foreign supplies of French silver and peg their values, while limiting free coinage, leading to the term

'limping bimetallism'. Then in 1876, France fully suspended silver coinage and the 1878 International Monetary conference was doomed to failure. Most European nations switched to gold and smaller nations (Denmark, Norway and Sweden) rapidly sold their limited silver holdings on world markets.

Flandreau argues that it was France's decision that provoked the world's flight away from silver. He argues that 'French policymakers seemed to underrate the fact that their actions would undermine the credibility of their commitment to bimetallism…and that…the demise of silver as a monetary metal, would have deflationary consequences.' Flandreau claims that this was not perceived by Germans either and so in addition to the 'French crime of 1873' there was also 'a German crime'. Flandreau writes that 'in the fight for gold that developed in the early 1870s, staying pegged to gold became a matter of national pride'. Flandreau argued that these factors all contributed to the metropolitan deflation initiated in 1873 and shaped the international gold standard.

Milton Friedman and the 'United States crime of 1873'[44]

Milton Friedman (1990) has a very similar account of the United States demonetization of silver, which he also labels a 'crime'. The US Coinage Act of 1792 had effectively created an American bimetallic system, with mints open to both gold and silver at a ratio of 15:1. In practice, only silver was coined because the world market price was well above that hence gold carried a premium. In 1834, with the market ratio at 15.625 to 1, new legislation was introduced, not at this rate, which had been initially considered between 1832 to 1834 by the Select Committee on Coins of the House of Representatives, but at an even higher 16:1 ratio. Quoting O'Leary (1937), Friedman argued that this higher ratio was selected not just to 'do something for gold', which had been discovered in Virginia, North Carolina, South Carolina, and Georgia, but to help destroy Nicholas Biddle's Bank of the United States by making gold a substitute for the notes of the Bank.

Friedman believes that the 16 to one ratio in 1834 was a 'gold club' similar to the 'silver club' of the same ratio proposed in 1890, both used by the 'largely rural, small business, lower-class southern and western supporters of Jackson in 1834 and of William Jennings Bryan in 1896 against the bankers, financiers, big business, and urban upper classes of the East and Northeast'. Friedman argued debatably that 'As in the United States, Britain's decision to return to a specie standard reflected the desire to have a "sound money" and [despite] the outrage of the financial community, holders of government bonds, and some economists at the inflation produced by the departure from a specie standard. Though Britain's choice of gold instead of silver for this purpose was something of an accident, it was a major reason why the United States made the same choice roughly 60 years later.'[45] But from 1834 to 1873, the real money of circulation was the inflationary 'greenback' issued to finance the Civil War, and while gold also circulated, it was at a premium.

Friedman notes that Henry R. Linderman, the director of the US Mint at the time, wrote to the Secretary of the Treasury in November 1872 that, while the gold–silver ratio fluctuations over the previous hundred years had not been large, several causes 'were now at work, all tending to an excess of supply over demand for silver, and its consequent depreciation.' Linderman also thought that the 'The weight of opinion in Europe and America was against the practicability of maintaining a double standard on any basis which might be selected, and in favor of a single gold standard.'

Friedman points out that Senator John Sherman, chairman of the Senate Finance Committee, 'had been determined to demonetize silver from at least 1867 and had arranged to have a bill to that effect drafted at the end of 1869'. Friedman quotes Nugent (1968) that from then on Sherman, Linderman, John Jay Knox (deputy comptroller of the currency and then comptroller), and Secretary of the Treasury George Boutwell cooperated to push a coinage bill that included the demonetization of silver. None of them made any explicit statement that they feared a drop in silver prices. Friedman quotes O'Leary (1960) that the demonetisation of silver 'was based not upon recognition of the existing economic facts but rather upon calculated hostility to silver as a part of the monetary standard.... purposive and deliberate... the result of "malice aforethought".'

The U.S. Coinage Act of 1873 eliminated provision for the free coinage of silver bringing in the gold standard, according to Friedman, 'a mistake that had highly adverse consequences'. But Francis Walker had observed 'So completely without observation was this measure passed, that it was not for a year or two that the fact of demonetization was popularly known.'[46]

The United States demonetization of silver of 1873 added upward pressure on the gold–silver ratio by absorbing huge amounts of gold, and not silver. From 1879 to 1889, the stock of monetary gold in the United States, both in the Treasury and in private hands, rose from 7% of the world's stock to 20%, with the holdings of the rest of the world declining. Under pressure from the US silver lobby, the US did coin limited amounts of silver, roughly 16 times that of gold, but had the United States been on silver, the stock of money would have risen faster than it did.

Friedman argued that, despite the expansion of the banking system (which could increase the money supply on each ounce of gold), rising real income, plus the spreading monetization of economic activities, plus the declining price level all increased the downward pressure on prices, leading to deflation from 1875 to 1896 at around 1.7% per year in the United States and 0.8% per year in rest of the gold standard world. However, deflation in agricultural and basic products was around 3% per year in the US, producing wide unrest and dissatisfaction.

Friedman concludes from his modeling that had the US remained on the silver standard, the ratios would have remained close to 16 to one in the long term and that United States could have played the same role after

1873 in stabilizing the gold–silver price ratio that France did before 1873. Friedman argued that a silver standard would have avoided the serious economic instability from 1891 to 1897, the contractions between 1892 and 1896, the widespread bank failures plus a banking panic in 1893, and a run on U.S gold reserves by foreigners fearful that silver agitation would force the United States off the gold standard.

Friedman is somewhat equivocal on the responsibility for the US adoption of the gold standard, noting (p. 1178):

> 'The prosilver group contained silver producers seeking to promote their special interests, inflationists eager to seize any vehicle for that purpose, and sincere bimetallists desiring neither inflation nor deflation who were persuaded that bimetallism was more conducive to price stability than monometallism. Similarly, the progold group contained producers of gold; deflationists, pilloried by the free-silver forces as Wall Street bankers; and sincere believers that the gold standard was the only satisfactory pillar for a financially stable society'.

But Friedman also notes that in 1897, confidence was restored and departure from gold prevented by a private syndicate headed by J. P. Morgan and August Belmont, under contract to the U.S. Treasury. The contract was supposedly onerous and arranged secretly through agents identified in populist literature as 'the conspiracy of international bankers.' While Friedman wrote that 'motives and intentions matter far less than the outcome', it is important that motives and intentions are clarified as it only thus that the analyses of Friedman and Flandreau are shown to be inadequate. In Britain's move to the gold standard, the City interests not covered by either Friedman or Flandreau, were central.

The background to the international conferences

Fetter (1965:58,66,101–02,139–42) was quite wrong in thinking that, before the international conferences of 1867 to 1892, there was a puzzling lack of discussion about the relative advantages of gold, bimetallism or silver as monetary standards. Harris (1757), a Master of the British Mint, had argued for silver and strongly opposed Britain's adoption of the gold standard. During the Napoleonic Wars, Ricardo came out in favor of the silver standard, although he changed his mind later (Sayers (1953:83). Leading members of Parliament, including the British President of the Board of Trade in 1826 came out in favor of bimetallism. Between1835 and 1844 there was much public support for silver and bimetallism as a sounder monetary base than gold, supported by experts such as Jevons towards the end of the century, through he also wavered strategically.[47]

Prior to 1867, only Britain was formally on a gold standard, while others were on *de facto* gold standards, bimetallic standards or silver standards.

Taking the lead from Britain, the other metropolitan countries had by 1867 converged on the desirability of the monometallic gold standard. However, most countries faced great difficulty in accumulating the necessary gold reserves and their banking systems faced periodic reserves crises. The metropolitan countries called four international conferences between 1867 and 1892, in the hope of an international bimetallic agreement or for a larger monetary role for silver.

To understand the wavering positions taken by some countries and the outcomes, the popular perceptions of delegates need to be kept in mind. First, Britain was unwavering in its refusal to monetize silver or be part of an international bimetallic system. Second, Britain insisted on keeping India and other colonies absorbing silver, a policy supported by all metropolitan countries. Third, the United States was seen by Europe as a potential absorber of silver and hence lumped together with the group of colonial absorbers of silver (probably to their chagrin). Fourth, the gold discoveries in California and Australia after 1849 initially increased gold reserves for most countries, and not only led to a decline in its price relative to silver, but a fear that that the decline might continue, unless demand was boosted. Fifth, the period also saw the occasional economic depression popularly associated with the adoption of the gold standard and gold reserves crises for some countries. Sixth, each country's support for bimetallism seemed inversely proportional to the health of its gold reserves.

The key issues discussed at the international monetary conferences were: whether the gold standard or bimetallism was the more suitable for an international monetary standard of value; whether an international bimetallic agreement was possible; the consequences of the metropolitan and universal demonetization of silver and adoption of the gold standard; the disadvantages of continuing with a silver standard while others, including the major trading partners, did not; the consequences for the metropolitan countries if silver was *remonetized*; and the consequences for relations between creditors and debtors, of all the above possibilities. In this study, the focus is only on debates that are of direct relevance to colonial currency policies.

At these conferences, British representatives, carefully chosen, resolutely adhered to gold monometallism for Britain, even though British representatives to the conferences appeared at times to be split, sometimes reluctantly. Robert Johnson (2003) in his chapter on 'New imperialism and "Gentlemanly Capitalism"' quotes Ewan Green – that, on the issue of bimetallism, there was a significant difference between industrialists and agricultural interests, on the one hand, and the merchant bankers of the City, on the other – to illustrate the difference between 'influence' and 'direction' by these elites. The former were opposed to the deflationary aspects of the gold standard, while the latter gained, both as creditors and as silver bullion merchants.

France was generally in support of bimetallism, the system which she had successfully maintained for more than a hundred years before 1871, but became indifferent whenever her gold reserves became healthy. European countries' attitude to the gold standard seemed to wax or wane along with the quantity of gold reserves they held at the point of time. The United States, while heeding the silver lobby at home and overtly supporting silver throughout, also became lukewarm by the 1892 conference, when the ability of the US economy to earn surpluses in the balance of payments, became all too evident.

The 1867 international conference

The 1867 conference was called by France, hoping for an international monetary system based on its own bimetallic system. However, all the other metropolitan nations (including the United States) agreed on the desirability of the gold standard, which some already had on a *de facto* basis.[48] Annual gold production had risen from around £3 millions in the early 1800s to £8 millions by 1848, but then shot up to £40 millions by 1850. The world's gold stock almost doubled between 1849 and 1858 (Fetter, 1965, pp. 240–44).

Few metropolitan countries now saw any problems with accumulating the necessary reserves, but the conference failed to agree on a common gold–silver ratio. While Britain thought that the US eagle and the French franc should adjust to the sovereign, the French–American view was that the sovereign and eagle should be adjusted to the French 25-franc piece, given that it was French bimetallism which allowed the easy exchange of gold with silver. Britain, the leading power, argued that it was 'not... its duty to take the initiative in assimilating its coinage with those of the countries of the Continent'.[49] There was no agreement on a proposed Convention.

While Holland worried that silver might be completely eliminated as a monetary metal, Switzerland asserted that, not only would the East maintain a silver currency, but it would be 'necessary *to stipulate* also in countries that have had the silver standard up to this time... that the relation between the value of gold and silver should not be established at a rate too low to permit the serious introduction of gold' (Russel (1898:70). Even in 1867, when there were few fears about a scarcity of gold, metropolitan countries were opposed to colonies adopting the gold standard, and wanted them to remain on silver. In this period, the United States saw herself as a potential silver supplier to China.

There was also a clear realization that, were some countries to demonetize silver and adopt gold standards, those who followed later would lose financially. Thus, while French public opinion and a French Commission of 1867 rejected the proposed demonetization of silver, they were warned by their monetary experts that 'the state which demonetizes first will do so but with little loss, while the states which shall have hesitated and waited will

undergo the losses resulting from the demonetizations which have preceded its own, and so will pay for the rest', while paying more for the gold they would need.[50] The French especially feared that large amounts of German demonetized silver might be dumped into their bimetallic mints.

In 1871 Germany converted to the gold standard and began to sell her superfluous silver (Hawtrey 1919:302). With France facing a recession while paying her war indemnity to Germany in gold, she faced a net loss of gold between 1871 and 1873. In 1873, France and the United States stopped the free coinage of silver and its price began a severe long-run depreciation (Table A.2b, Appendix).[51] Other European countries also adopted the gold standard. France momentarily became a strong advocate of bimetallism, as she would again be in 1881.[52] In the United States, a silver lobby strengthened and laws such as the Bland–Allison Act were passed giving greater monetary roles for silver as well as calling for an international conference for the remonetization of silver.[53]

The 1878 international conference

By 1878, France had restocked in gold. Bimetallism was supported by only the United States and Italy. The others rejected silver if Britain and Germany stayed on the gold standard. Switzerland advised that the future for 'higher civilizations' lay with the gold standard and their representative argued that silver was an inferior monetary metal whose value had been depreciating for four centuries, was inconvenient for private persons, and fit as a standard only for backward nations (Russel 1898:218). The United States was advised to find silver allies in Central America, South America, China, Japan, the British Indies, and the Dutch East Indies.

Britain stated that, not only was universal bimetallism impossible to realize, but that a universal gold standard was equally utopian. She refused to open her own mints to silver, but announced that she would keep the Indian mints open to silver.

British India representatives expressed views different from their superiors in London. The comprehensive Chapman Memorandum from the Government of India's representatives to the 1878 conference, pointed out not only the instability in exchange and standards of value caused by being on a silver standard, but a whole raft of disadvantages to India and other British colonies.[54] The Memorandum noted that the demonetization of silver in Europe meant that the vast amounts of silver received by India and Asia could not be used in payment of gold debts, while its fall in gold value would lead to losses if attempts were made to reconvert the silver into gold. Their large sterling debts created severe fiscal stresses and losses for the Government of India, which had to enforce surpluses in order to pay their sterling debts in ever-increasing amounts of depreciating rupees.

All these had tremendous costs for India in development foregone. Chapman complained about the retrograde, unwise, ridiculously low limit

of £2.5 millions per year placed on Indian public expenditure. He pointed out that with the most ordinary prudence, it was 'scarcely possible to make a railway in India which [did] not yield a prompt and rich' return. While the revenue had over the previous 12 years grown at no less than £9 millions per year, public expenditure had only grown by a mere £3.75 millions.[55] The Memorandum complained that the ordinary Indians who had saved their wealth in the form of silver bullion lost large portions of their capital.[56]

The Government of India's representatives faced divided loyalty at these conferences and were unable to independently represent India's interests. They plaintively stated that 'the great wish of the financial authorities in [India had] been if possible, to have a common monetary system with England'.[57] Thwarted in this aim by the authorities in London, they feebly argued that England was aiding bimetallism by maintaining gold monometallism in England and silver monometallism in India, and that an international bimetallic solution was possible without England. It was clear from statements by other metropolitan powers that without England none of the others would have even considered the adoption of bimetallism.

More damaging for colonial interests, British representatives for India stated that they had been 'authorized to respond' that they would *continue* to freely coin 'silver having full legal tender facility throughout the Indian possessions of Her Majesty' if certain other principal states did the same.[58] Years after the metropolitan countries had already acted, they emptily warned that if the depreciation of silver continued or if there were fresh discoveries of gold, they would enter against their wish 'into the struggle which [was] about to commence between the nations of the earth for the sole metal which will be left to us as the solid basis of an international currency'.[59] The Chapman Memorandum warned that India might begin to relinquish her silver in payment of her debt abroad[60] even though metropolitan countries at the conference noted that it would be 'impracticable' for silver to be ever returned to Europe.[61] It would be a fascinating research topic to examine the moral dilemma faced by British Government of India civil servants, who were obliged to serve the Indian public interest and at the same time were duty bound to obey orders emanating from their superiors in London, which clearly ran contrary to India's interests.

The record of the proceedings make it clear that the metropolitan nations expected to be able to freely use silver to extract raw materials and gold from colonies. Yet they feared that an international bimetallic agreement with a reversion to the previous gold–silver ratio of 15.5, would raise the prices of all commodities from the silver standard countries and reduce all debts. They also feared that an equal circulation of gold and silver would 'cause a great part of the silver with which Asia is saturated to be poured out on Europe, and to attract in return a considerable part of the European gold'.[62]

The conference ended with innocuous statements by all the country representatives.[63]

The 1881 international conference

By 1880, with international recession deepening and Europe facing increasing difficulty in retaining gold reserves, public opinion in the metropolitan countries swung towards bimetallism. In Britain also chambers of commerce, bankers, and even ex-Governors and directors of the Bank of England came around to seeing bimetallism as superior to the gold standard (Russel 1898:260). Nevertheless, silver and silver standard currencies like those of British India and the Straits continued to depreciate causing severe economic disruption. Because India's 'Home Charges' and other debts were denominated in gold standard sterling, the rupee equivalent and the Indian taxes required had to be correspondingly higher, causing great stresses internally. While in 1873–74, the Indian government had to remit 14.3 million rupees to London for Home Charges denominated in sterling, the burden doubled to 26.5 million rupees in 1892–93 because of the depreciation of the rupee.[64] Eventually, the 1881 international monetary conference was convened.

The proceedings of the 1881 conference made evident once more, that the only obstacle to a workable international bimetallic agreement was Britain.[65] There was consensus that, since Britain had not guaranteed the conversion of silver into gold, the international gold–silver ratio and the gold price of silver bullion, on which the stability of both the English gold standard and her colonial silver standards depended, had been stabilized by France's bimetallic ratio.[66] There was no contradiction of the bimetallists' argument that the objective of a stable, international standard of value would be better satisfied by universal bimetallism, rather than a standard based on the limited supply of one metal only, whether gold or silver.[67] There was consensus that an international agreement which included France, England, Germany and the United States would ensure an even more stable gold–silver ratio than that maintained by France and the Latin Union alone before 1871. It was pointed out that without French bimetallism, the huge expansion in gold output after 1848 would probably have led to the supply of gold doubling and gold prices halving, with corresponding losses to gold standard creditors.

There was consensus that, with silver then half of the world's monetary stock,[68] its demonetization had not only led to its severe depreciation, but reduced the monetary base of credit, led to an appreciation of gold and therefore worsened the recession in the gold standard countries.[69] The Conference agreed that gold was not superior to silver as a monetary metal.[70] It found little basis in the gold monometallists' arguments that bimetallism would lead to creditors being cheated by debtors.[71]

The bimetallists at the 1881 Conference were aware that Germany's close commercial and financial relations with England made it imperative that she should adopt England's gold standard.[72] There was consensus that if Germany, France or the United States retained the silver standard

or bimetallism they would have suffered severe financial losses by being forced to absorb silver dumped by other countries. The conference recognized that the same logic applied to British India and the colonies who had tight economic links with Britain, and who continued on the unstable and depreciating silver standards, which remained subject to 'vicissitudes of foreign legislation'.[73]

Britain finally declared that her gold standard had satisfied all British wants and without the inconveniences that had appeared elsewhere and for that reason had been 'accepted by the Governments of all Parties and by the Nation'.[74] Even though other countries pointed out all the contradictions in her position, Britain, supported by Germany, rejected bimetallism. The 1881 conference also ended in failure.[75] Currency policy in the colonies, however, did not depend on the outcome of the conference. The bimetallic agreement, which the metropolitan nations had proposed, had as a key condition the indefinite postponement of the introduction of gold currency into India. The 1881 conference understood that Britain would not introduce the gold standard into India or her other colonies, whatever the outcomes of the conferences.

The 1886 Gold and Silver Commission in Britain

After the failure of the 1881 International Conference, renewed pressure in England for bimetallism led to the 1886 Gold and Silver Commission whose membership included individuals later to be involved in colonial currency changes.[76] The 1886 Commission and the Report were split equally in support of a gold standard (the Majority Report) and bimetallism (the Minority Report).[77] There was also a consensus part of the Report, which virtually verified all the substantial conclusions of the 1881 conference regarding the desirability of bimetallism[78] but paradoxically supported a previous British Departmental Committee, which had decided not to introduce a gold standard to India.[79] The Minority Report concluded that the only remedy was international bimetallism.[80]

Significantly, the Majority Report agreed with the substance of the bimetallists' arguments presented in the previous sections.[81] However, it then, without presenting any evidence, claimed that adoption of bimetallism had not found general public acceptance in Britain and would be a 'leap in the dark'; the report noted that the matter needed much more discussion – but 'in the financial world, and by practical men'.[82]

The Majority Report also voiced a number of objections to Britain herself monetizing silver. First, if other countries rejected bimetallism, England might be worse off if she had acquired silver in the meantime. Second, if despite the bimetallic agreement, certain countries still hoarded gold, this would reduce the supplies for countries already on the gold standard. Third, it argued that England was 'largely a creditor country of debts payable in gold, and any change which entailed…a diminution of the purchasing

power of gold, would be to [their] disadvantage'.[83] Last, they objected to having a 'different system of coinage in the mother country and our larger colonies'.[84]

These arguments were unfortunately not applied to India and other colonies where silver was being enforced by Britain. Instead, the Majority Report insisted that *India could not be included in any international bimetallic agreement* because the monetization of gold in India would provoke fresh difficulties for Britain, although it acknowledged that India's exclusion would be a 'singular anomaly'.[85] Both the Majority and Minority Reports recommended that foreign governments should be encouraged to open their mints to silver 'on an undertaking from India that she would not close her mints during the same period'.[86] Britain would only make minor adjustments herself.

David Barbour, who was part of the Majority Report and would later chair several committees of inquiry into colonial currencies in West Africa and the Straits, interestingly pointed out that Britain was fully responsible for the monetary disturbances in India and the world. He stated that if Britain would not act internationally to relieve India of her difficulties, then justice demanded that in monetary decisions on India 'the interests of India alone should be considered'.[87]

The Minority Report condemned the British Government for being 'the greatest obstacle, perhaps the only obstacle, to the establishment of an international agreement for the use of silver as money' which might relieve India's problems. Britain remained the obstacle in the next and last international conference as well.

The 1892 international monetary conference

In 1891, for the second time in six years, the Government of India requested permission to close its mints to silver in a desperate effort to stem the fall of the rupee, which was granted as a temporary measure; in early 1892, the sale of Indian Council Bills was also temporarily suspended. Green (1988b) notes that this would have been a serious challenge for the City in depriving them 'of a vital source of short-term liquidity, reserve supplements and a source of guaranteed profit at a time when City confidence was still recovering from the Baring crisis.'[88]

The 1892 conference was called as more influential individuals in Britain, like Balfour and Lidderdale joined the cause of bimetallism (Russel 1898:417). But on the other side, the Gold Standard Defence Association (and its powerful President Bertram Currie of Glyn, Mills and Currie, Britain's largest private bank) argued that the fall in prices and appreciation of gold was to Britain's advantage as a net creditor, in receiving a larger quantity of goods or money, while adopting bimetallism would endanger London's status and dominant role as the world's financial center.

Green observed (p.52) that in 1892, the Chancellor to the Exchequer 'packed the British delegation to the International Monetary Conference at Brussels with a majority of 'Goldbugs', and thus effectively forestalled any constructive engagement with the idea of an international currency agreement.... The bimetallists were thwarted at every turn.' According to Green (1988a) the Liberal Chancellor Sir William Harcourt justified this by observing that, 'as the question ... concerns the supremacy of London as the metropolis of money and the great exchange mart of the world I consider ... that their [the City's] immense interests ... should have a larger representation than is given in the person of Houldsworth to a single manufacture.' Green observed that Harcourt thereby waved aside Britain's largest export industry in order to accord preference to the City.

The conference was derailed by the United States asking for a greater but only limited use of silver.[89] France refused to increase her own stocks of silver unless she was compensated. The conference was presented with an unacceptable Rothschild plan which Russel (1898) saw as a subterfuge to stabilize exchange between India and Britain, at the expense of the United States.[90] Half of the British delegates of both England and British India were critical of the official British/Rothschild plan and attributed the monetary difficulties to the obstinacy of the 'bankers of England and the Government' (Russel 1898:400,407). The gold monometallists voiced their objection to 'digging up silver in America and elsewhere, and bringing it to Europe to bury it again in the vaults of issue'.[91] All other proposals were rejected by Britain. With no agreement possible, the conference was adjourned but never met again.

After the failure of the 1892 Conference, the United States and France, both of whom had large reserves of silver, negotiated with Britain for the remonetization of silver. Their proposals, which needed only minor adjustments from Britain[92] required that the Indian mints be opened again to the free coinage of silver, sovereigns be demonetized in India, and an undertaking be given not to make gold legal tender in India. It also asked for the coining of silver rupees and British dollars which, while being limited legal tender in England, would be full legal tender in the Straits Settlements and other silver standard colonies. Another condition was the coining of silver in Egypt, then under informal British control. While these proposals came to nothing, their closeness to what the British authorities eventually implemented in the colonies indicates that the metropolitan countries all envisaged colonial currency systems complementing and aiding their own gold standards.

The discussions above have clearly outlined significant opposition, both in British India and in London, to the policies being implemented by Britain, yet this opposition proved ineffectual. Who exactly were responsible for the final imperial decisions made leading to the retention of Britain on a gold standard, the rejection of silver and bimetallism for Britain, and the imposition of silver on the colonies, is the most critical question.

Explaining the failure of the bimetallism lobby

Friedman concluded that 'Far from being a thoroughly discredited fallacy, bimetallism has much to recommend it on theoretical, practical, and historical grounds as superior to monometallism, though not to symmetallism, or to a tabular standard.'[93] He noted that, if greater stability of value was the objective, then under the gold standard it became a self-fulfilling prophecy. If Britain had chosen silver on the expectation that it would have a more stable value, that too would probably have become a self-fulfilling prophecy, but it would have prevented the subsequent widespread demonetization of silver and instead would have led to either the demonetization of gold or a continuation of effective bimetallism by at least some countries. Either result would probably have meant a more stable real price of silver than of gold, and, if bimetallism had continued, very likely a more stable price level than under either monometallic standard.

The analysis of the bimetallism controversy by E. H. H. Green (1988b) throws more light on some protagonists later involved in imperial colonial currency policies. Green points out (1988b, p 45) that in the period 1889 to 1914, Britain lost its industrial supremacy to United States and Germany and its agricultural sector went into difficulties, but its banking and financial service sector flourished, strengthening London's position as the world's financial sector. Green noted that while some historians saw these changes reflecting Britain's new comparative advantages in financial services and the invisible hand of markets, Cain and Hopkins saw them as a result of the 'visible hand' of Britain's elites: 'the adherence of successive British governments to the gold standard and free trade strengthened sterling's role as an international currency, reinforced the City's position as a global financial centre, and entrenched Britain's as the world's leading shipping, insurance and brokerage market…at the expense of Britain's manufacturers and farmers.'

Green's argues (1988b, p.55) that although the boundary lines were not clear-cut between the City 'rentiers' and the 'producers' (agriculture and industry) as popularly projected, the most influential supporters of the gold standard and opponents of bimetallism were from the City. Green's view was (1988a and b) that the bimetallic controversy demonstrated that, no matter the political color of the Government of the day, the most powerful permanent officials and advisers to successive British Governments, came from the key 'economic departments' of the Civil Service, the Treasury and the Board of Trade who all expressed marked hostility to bimetallic arguments: 'Francis Mowatt, Edward Hamilton, Reginald Welby and Robert Chalmers at the Treasury, T. H. Farrer at the Board of Trade and G. H. Murray at Inland Revenue, as well as Arthur Godley at the India Office, were all members of the Gold Standard Defence Association, a body which was created to institutionalize City attacks on the bimetallic cause.'

Green noted that 'civil servants and leading City lights exchanged confidential information and, effectively, ganged up to get their story straight

for the second Parliamentary Committee of 1898 on Indian Currency and to steer Hicks Beach away from any sympathy with the Wolcott mission's proposals.'[94] Whitehall was also in close geographical proximity to 'the City', which was the most important lender to the British Government. Even in 1888, the Permanent Secretary to the Treasury was of the view 'it is no use nowadays to take any financial step without giving the Bankers, which are such a powerful body, an interest and without taking the financial "big wigs" into confidence'.[95]

Green argued (1988b, p.63) that Whitehall and the City also shared a common view that the earnings of Britain's service sector and links with the international economy were vital. For instance, while Britain's trade deficit may have been £194 million, interest earnings on foreign investments of around £2 billions amounted to £90 millions (at 4.5%), a similar amount was earned from shipping and freight. Britain's trade imbalance was a natural outcome of Britain's position as a hub of international finance.

Green argued that more important than the commonality in thinking between the Civil Service and the City, was that between the City and Britain's aristocratic political elite, having evolved over the need to finance and fight the wars of the eighteenth and nineteenth centuries. The aristocracy had also diversified from land with falling incomes to City stocks, bonds and securities, and investments abroad, the closer relationships with the City cemented by marriage.[96]

De Cecco similarly followed Keynes' interpretation in seeing the debate on bimetallism and silver as a struggle between debtors and creditors, industrial entrepreneurs and importers of manufactured goods struggling against producers and exporters of primary commodities. De Cecco concluded (1974:58) that in all the metropolitan countries, 'industry prevail[ed] over agriculture, creditors over debtors... faithfully mirrored by events in the various monetary systems'.[97]

Jevons concluded that Britain would be the major beneficiary from an international gold standard. First, not only did she and her dominions of Australia, South Africa and New Zealand have the most productive gold mines, but also the world's gold passed through London and nations would have to pay her price for gold if they wanted to adopt the gold standard.[98] Second, as a gold standard creditor country, she gained if the gold standard appreciated through increased demand by other metropolitan countries. Third, most of the world's silver mines, whether situated within or outside the British Empire, were owned by British capital.[99]

Rothermund had very perceptively pointed out (1970:91) that the bimetallism debates, 'enabled the British experts to adhere to the gold standard at home and to defend the maintenance of a silver standard elsewhere, as British bankers and merchants were eager to export America's new production and Europe's demonetized stock to the East... in 1877, India absorbed about 84% of the world's production of silver...'.

The next section examines some of the incredibly complex set of historical changes which might have influenced British merchants, foreign traders and bullion dealers, in their narrow financial interests, to encourage Britain to adopt a gold standard, while imposing silver on her colonies. These are factors not considered in depth by either Milton Friedman (1990) or Flandreau (1996).

Britain's control of international trade and gold and silver flows

While gold had the obvious weight and volume advantages over silver, what needs to be explained is why Britain did not continue with her sterling silver standard and use the more convenient gold for international payments, instead of absorbing gold and exporting the bulkier silver.[100] Nor does it explain why Britain forced silver on her colonies.

Several factors may have been relevant. First, Britain's rise to international political, economic and financial supremacy also gave it a large measure of control over international gold and silver flows. Second, the long-run trends in gold–silver ratios in Europe suggested that silver was likely to depreciate relative to gold. Third, gold–silver ratios in the East, at least at the earlier stage of imperial penetration, gave an advantage to making payments in silver, and receiving payments in gold; and fourth, Britain's creditor class would have preferred an appreciating sterling standard based on gold, rather than a possibly depreciating standard based on bimetallism or silver.

Andre Gundre Frank (1978:107–12) noted that in the two centuries of Britain's imperial struggle for international commercial supremacy, up to 1815, one objective was direct/indirect control over gold and silver flows. Clapham (1944:234) was of the view that 'every extension of the British Empire, every North American colony settled, sugar island acquired, or trading opportunity in India utilized, had a bearing on the silver market and the trade in silver currencies'. Thus Britain's 1630 Cottington Treaty with Spain explicitly required that currency needed for Spanish expenditure in Flanders must be coined in England or carried in English ships (Feavearyear, (1963, p 90). From 1700, one of the links in the economically vital trade between England, Africa, Americas, and the East was the transport of silver from Mexico to India and China (Barratt-Brown, 1970, p 40). The 1703 Treaty of Menhuen provided greater access to Portuguese-controlled gold and silver, and the economics of the Atlantic triangular trade meant that the final profit ended up as gold in London. These flows through England were strengthened through the treaties of Utrecht (1713) and Rasdt (1717), the *asiento* to carry on the slave trade and the rights to trade with Spain's American colonies.

Britain's battles with, and eventual ascendancy over, Holland, and the demise of the Bank of Amsterdam following the Napoleonic Wars, enabled

London to take over the previous Dutch dominance of imports and recoining of precious metals from Spanish America (Vilar, 1969, pp. 204–21). By 1815, when Britain finally established supremacy over all her European competitors and especially France (following the Napoleonic Wars), a major prize was control over the 'moribund hulk of the Spanish Empire', the source of the world's silver supplies for centuries.[101] Chalmers (1893:24) saw an explicit link between the British acquisition of control over the Spanish empire and Britain's colonial currency policies.

Feavearyear (1963:150–51) thought that, while the great influx of silver from the New World by 1700 had driven down Europe's gold–silver ratio from about 11:1 in the Middle Ages to about 15:1, the East continued to have a gold–silver ratio of around ten to one. European merchants therefore found it more profitable to use silver in payments to the East in a triangular trade, which ensured that the profits ultimately ended up as gold in London.[102] The East India Company, for whom the export of bullion was far more important than the export of manufactured goods, conducted by far the bulk of the export of silver; the most important destination of the silver was India (Li, 1963, p 149).

British imperial authorities' aversion to holding silver may also be explained by the expectation that the pre-eighteenth century depreciation of silver would continue, especially if silver was also demonetized by other European countries. Law had concluded as early as 1704 that if England established a gold standard, silver would depreciate by perhaps 10% of its value, and that if Europe also rejected silver then it might fall by as much as two thirds (Fetter, 1965, p 8). Ricardo, who had initially been in favor of a silver standard for Britain, opted for gold again by 1819 because he thought that 'improvements in silver mining would make silver a falling standard' (Sayers, 1953, p 83). In 1826, a British Board of Trade proposal for Britain to adopt bimetallism at the existing French gold–silver ratio[103] was rejected, supposedly convinced by the Duke of Wellington, later to become Prime Minister, that the huge increases in silver production would make silver 'useless as a measure of value' (Fetter 1965:124).

Another possible factor was that the imperial wars had required a massive jump in Britain's state expenditure and debt[104], in the process, creating a powerful creditor class with vested interests in an appreciating monetary standard. These money lenders, having played a crucial role in Britain's imperial wars, inevitably became a powerful influence on imperial monetary decision-making (Ford 1962, p 246). The City creditors, when it came to choosing between an appreciating gold standard, and a broader-based and possibly depreciating silver or bimetallic standard, would have preferred the former.

Undoubtedly, the international merchants, investors, bullion dealers, and financiers who were increasingly based in London, would have been all too

conscious of the long-term decline in the gold price of silver after the silver discoveries in the New World, the benefits to creditors of an appreciating gold standard, and the profits to be made in exporting silver to the East. Statesmen were aware of the immediate national advantages in absorbing an appreciating internationally accepted monetary asset while losing a depreciating commodity in payments abroad. Imperial authorities involved in decisions on the currency systems of both Britain and her colonies would have been aware of the above range of issues, and some probably also stood to gain personally. H. H. Gibbs, later Lord Aldenham, was one of the few bankers to adopt a pro-bimetallic stance but he was also a Director of the Peruvian Corporation and his family firm had large interests in several silver currency nations in South America.[105] Chapter 4, on India, gives more insight into the silver lobby in London, with close connections to the Secretary of State for India.

Conclusion

Britain continued to go through severe gold reserves crises throughout the first half of the twentieth century, although often she had ample supplies of silver, available for colonies. Despite the inflationary consequences of inadequate control over bank creation of money, the imperial authorities were reluctant to impose severe reserve requirements on the note issue of the Bank of England. It was recognized that the business of financing state expenditure, whether for wars or infrastructure, or the varying demands of commerce, required that the Bank should be relatively free to issue notes in excess of the reserve requirements, and if necessary, for Government to suspend the 1844 Bank Charter Act as the need arose – which did occur frequently and over long periods. The reserve requirements imposed by the 1844 Bank Charter Act recognized the usefulness of a fiduciary issue.

The transition of Britain to the gold standard, and the rejection of bimetallism and silver, was deliberately engineered by powerful forces, and linked to a number of factors: the long-term decline in the price of silver; the possibility of profits through the export of silver to the East; and the rise to international supremacy of Britain as a world economic and financial power, giving increased control over Spanish silver supplies as well as control of an increasing Empire where silver could be enforced in exchange for goods which could be resold for gold or gold currencies.

Hawtrey (1927:83) had concluded that the defects of gold and silver as standards of value in the nineteenth century 'have been attributable to causes within human control'. It is clear from the international monetary conferences that an international bimetallic agreement was desirable as a better international standard, and eminently feasible; but the major

stumbling block was always Britain, whose refusal to join has been attributed by Kaminsky (1980:313) to opposition by the City.

It was Britain's refusal to monetize silver that set up a chain reaction amongst other European countries and the United States, some of whom were advised by economist Jevons, to reject bimetallism and demonetize silver in their own self-interest.[106] The metropolitan countries, with Britain in the lead, all clearly recognized that there were major disadvantages to those nations who continued absorbing the internationally demonetized silver while the rest of the world went onto the gold standard: they would be stuck with a depreciating commodity which was not acceptable for international payments; exchange rates would be destabilized if based on silver standards; all in addition to the physical disadvantages, relative to gold, of using the bulkier silver as a monetary metal.

All the metropolitan countries recognized that, whatever monetary solution was adopted for them, the colonies should not be allowed to have either gold or bimetallic standards, but must continue to absorb silver. Thus Jevons advised the metropolitan nations not to worry about their own demonetized silver, since the 'hundreds of millions who inhabit India and China, and other parts of the eastern and tropical regions', who were too 'poor, ignorant and conservative' to employ gold, would absorb all silver which they could throw on to the market, provided it was done 'with common sense regard to commercial profit'.[107] The converse flow of this was an extraction of raw materials, produce, and gold itself. De Cecco's view (1974:44) was that the silver-absorbing countries 'became the objects of international arbitrage to deprive them of gold'. There is evidence that similar processes were also at work in areas of informal imperial control such as China.[108]

The City and British decision-makers may have seen the possibility of considerable advantage in rejecting silver and bimetallism for herself and maintaining her own gold standard, but denying colonies gold standards while imposing on them silver and silver standards. Following the 1884 Berlin partition of Africa, Britain had emerged with the largest Empire of all the metropolitan powers. Large parts of the newly acquired or controlled territories had diverse currencies, which could be, and as our later chapters show, *were* replaced by new silver-based colonial currencies. In this, Britain was not alone. Whatever their disagreements in the monetary conferences, other metropolitan powers like the United States and Germany, also had colonies where they hoped to and did follow currency policies similar to those followed by Britain in her colonies.[109]

India and other colonies had no choice, either in policies formulated for them, or in the views expressed in the international forum. Even though India theoretically had representatives at the international monetary conferences, they were forced to disclaim their own position

paper while admitting that their views, where they differed from that presented by Britain were 'entirely shared' by many of their colleagues in the Government of India.[110] At the conferences official statements made by these colonial representatives clearly were in favor of British, rather than Indian, interests.

The logic for these opposed British policies in silver for the metropole and for colonies was driven by several inter-related factors: the long-term decline in the price of silver; the possibility of profits for the City interests through the export of silver to the East; the rise to international supremacy of Britain as a world economic and financial power, giving increased control over Spanish silver supplies; and control of an increasing colonial and informal empire where silver could be enforced in exchange for gold, or goods which could be resold for gold or gold currencies. Especially following the 1884 Berlin partition of Africa, Britain had emerged with the largest Empire of all the metropolitan powers: diverse currency systems were replaced by new silver-based colonial currencies.[111]

Neither Britain nor the other metropolitan countries contemplated any of the silver, British or otherwise, returning or being accepted in Britain, except as bullion. Given the role which gold reserves continued to play in national and international monetary systems, the imperial imposition of silver, which metropolitan countries had demonetized and refused to accept in return, may be seen as the crudest form of 'unequal exchange' tantamount to fraud.[112] The enforced historical accumulation of a metal which could not in the twentieth century be used for international payments was clearly to the long term economic disadvantage for colonies, even if difficult to calculate.

Colonies had no choice either in policies formulated for them, or in the views expressed in the international forum. Thus, even though British India representatives were forced to disclaim their own position paper, they reminded that their views were 'entirely shared' by their colleagues in the Government of India'.[113] At the conferences, crucial statements made by these representatives clearly supported British rather than Indian interests.

Historians have failed to discuss the remarkable anomaly that Britain continued with her policies of imposing silver on colonies and into China, well into the twentieth century, while British policies continued to destabilize the price of silver doing great harm to the holders. Most of the world's silver was either produced in the British Empire or in British-owned mines in Mexico and the United States. With silver depreciating from 32 pence per ounce in 1925 to 12 pence in early 1931, the most significant factor was metropolitan countries dumping their demonetized silver on the market, with Britain herself getting rid of 90 million ounces between 1920 and 1929. The British Prime Minister is recorded to have stated in Parliament that there

was no prospect of international bimetallism and therefore ‘there is no more point in a Central Bank holding silver ... than there would be in its holding aluminium, tin or cotton’.[114] Colonies had long opposed holding silver for precisely this reason. Right up to 1949, Britain would still be denying any responsibility to redeem even British silver forced into colonies.[115]

3

Colonial Currency Policies, 1600–1893: From International to Localized Currencies

Introduction

Two historical themes or sets of explanations have continued to current times. First, Chalmers (1893: pp. 29–30) observed that 'faulty as the legislation of 1825 might have been in important details, it was ... sound in its essential idea, viz., that sterling was the best system of currency for all British colonies, irrespective of their geographical position and trade relations'. Nelson (1987:50) thought that the purpose of the 1825 policy was to 'encourage the use of sterling throughout the British Empire'. Shannon (1951: pp. 334–37), Hopkins (1970: 104) and Nelson (1987: 53) all held that that the authorities believed in the principle of currency areas which allowed non-sterling currency, if dominant, to circulate alongside British silver. This chapter challenges both these sets of explanations.

Detailed descriptions of the pre-currency board changes in British colonial currency systems may be found in Pennington (1848) and Chalmers (1893),[1] who were both British civil servants implementing currency policies. However, their occasionally recorded disagreements with superiors give pointers to the motives of decision-makers, especially when such policies were opposed by colonies. The following give other accounts, with many differences of interpretation: Shannon (1951), Greaves (1953), Hopkins (1970), Letiche (1974), Fieldhouse (1981), Nelson (1987) and Helleiner (2003).

While amongst the first British colonies were the white settler colonies in North America, Australia and NZ, their contrasting experiences are left to Chapter 9. This chapter looks at the 'colonies proper', and only a selection, which brings out the key changes in imperial currency policies. While Ireland does not feature in the typical histories of British colonialism, its much earlier experience of British currency experiments is briefly explained as a historical precursor to imperial policies in the dependent colonies more than a century later.

There is an extensive coverage of the West Indian colonies of Barbados and Jamaica, which, according to Chalmers, passed through nearly all the phases of British colonial currency policies up to the middle of the nineteenth century. These are then compared with the experiences of Malta and Hong Kong. The focus then shifts to India, which not only was financially the most important of all British possessions, but also illustrated the whole continuum of colonial currency policies implemented from at least 1805 to the end of the nineteenth century.

This chapter discusses the elimination of already existing gold standards in colonies and the imperial opposition to flexible note issues frequently proposed by colonial governments, while more tolerant of private bank note issues. Also discussed here, and of relevance to the next three chapters, is the 1894 Mowatt Memorandum, whose contents indicate the crystallizing imperial objectives in the creation of the currency board system, while the 1914 Blackett Memorandum is effectively a 'mission accomplished' report to the imperial authorities. This chapter first outlines the incorrectness of imperial valuations of colonial currencies, the colonial response with 'raisings' (effectively competitive devaluations) and the role of 'Gresham's Law' in inducing changes in currency circulations.

Imperial valuations, colonial 'raisings' and Gresham's Law

While textbooks invariably point out the distinctions between money as a unit of account, as a means of payment and as a store of value, they rarely come to the fore in normal times. In British colonial currency history, however, it was precisely the differences between these functions of commodity money that explain the conflicts between imperial authorities and colonial subjects who used the currency.

The imperial authorities attempted to assert currency values on British or non-British coins, according to their intrinsic silver content using London silver prices, which were not the international gold price of silver. Chapter 2 established that during the nineteenth century, the silver bullion and coins kept as reserves by the Bank of England depended for their sterling or gold value on France agreeing to its conversion into gold, crucial for the Bank of England in its frequent reserves crisis.[2] The London price for silver, because of large inflows, was always depressed below its actual international value and continuously exported, as the authorities admitted.[3]

During the 1838–44 policy changes, the Spanish dollar was incorrectly valued at 4s.2d. Sterling supposedly to correct the 4s.4d. Sterling value used in the 1825 policy changes.[4] But Britain by 1816 had closed the British Mint to silver, and the sterling (gold) price of silver was determined by the French bimetallic gold–silver ratio of 15.5 and the exchange rate between French and English gold coins.[5] While British monetary experts acknowledged this anomaly,[6] they did not incorporate it into their explanation of the 1825–44 colonial currency policies.

Chalmers (1893:6–7) had acknowledged that the wrong English valuations led to debasing of the weight of pieces of eight to correspond to the European ratio of silver to gold. The Treasury Minute which had implemented the 1825 policy change had even then advised that, because the Spanish dollar could not be immediately replaced, it would be expedient to value it as '4s.4d. the dollar, being a fraction of a farthing only above its intrinsic value'.[7]

Table A.1 in the Appendix shows that according to the intrinsic gold content of the Spanish doubloon, the 1838 British rating undervalued it by eight pence. Similarly, the Spanish dollar was undervalued by 1s.6d. sterling and the 1825 valuation was more accurate than the 1838 valuation.[8]

The inevitable result was that by Gresham's Law the 'bad money' drove out of circulation all 'good money' that had higher domestic or international valuation, even if the differences were fractions of 1%.[9]

Colonies tried to counter imperial undervaluation by either paying their debts in coins that had their bullion content reduced in proportion ('clipping' and 'sweating'), or by 'raising' the currencies' nominal value (Lester 1920:20). Since the colonies continued to use the sterling unit of account, the higher valuations effected by 'raisings' implied a devalued sterling, referred to in their legislation as sterling 'CURRENCY'. Different colonies also had different 'CURRENCY' valuations of the same coins, as they competed amongst each other, and with Britain, to retain the desired currency.

As with competitive devaluations in modern times, historians have had mixed feelings about the success of these raisings. Chalmers (1893:8) admitted the raisings did succeed in Jamaica at the end of the seventeenth century[10] and the technique was widely used in Europe and French colonies to counter monetary stringency.[11] Lester (1970:21) also had concluded that while the increased money supply simply led to prices rising in proportion, colonists as debtors were still able to pay off their debts with less silver or less goods.

Given that the imperial authorities opposed the colonial raisings they were probably effective with at least some short-term benefits for colonies. The imperial valuations were therefore not 'errors' but deliberate imperial attempts to either eliminate those international currencies that were already in circulation in colonies, or impose currencies which colonial economic interests opposed. Shannon (1951:335) was not correct in thinking that the British currency valuations in this period were early attempts, like a primitive International Monetary Fund, to create 'orderly exchange rates' with colonies.

Early imperial currency experiments in colonial Ireland, 1598

Typically, the word 'colony' is associated with non-white colonized peoples, and not white people who formed 'settler colonies' as in the early United States, Australia and NZ; or even earlier, in Ireland, where England's

currency manipulations – such as debasements, limiting circulation and limited convertibility in London – preceded those in other colonies by three centuries.

In 1598 England demonetized all existing currencies in Ireland and issued a new currency, which was debased by 25% but declared to be full legal tender for the old unit of account. Hawtrey (1919:327) thought that the objective was 'not only to gain the seigniorage on the debased coin as a contribution towards the cost of the war in Ireland but to withdraw from the country the good coin which in the hands of the Irish population, supplied a potential resource for the rebels to buy munitions and provisions for the war'. These new Irish tokens were to be converted only through sterling bills which were to be limited to those receiving pay from the English government, Irish residents with proof of reasonable expenditure in England, and merchants who showed receipts for goods.

The imperial experiment apparently failed. Despite stiff penalties and counter-measures, the colonized Irish continued to use the old coins and exchanged the debased coins for bills on England so that the debased coins accumulated in idle hoards in the authorities' hands.

This early sterling exchange standard revealed three imperial objectives important in colonial currency policy centuries later. First was the gaining of the seigniorage profits of issue. Second, was the control of money flows and restricting the 'undesirable' expenditure of colonized people. Third, was the attempt to use a token currency as the standard coin, in order to limit the market for colonial possessors of currency and limit the convertibility of the tokens to favored agents. These ideas may be traced to Plato, who had advocated the use of tokens and cheaper coins (like iron) for local circulation and more valuable good coins (like gold and silver) for international payments.[12] The Irish reaction of using debased currency for payments, and saving the good currency as a store of value, would also be replicated by other colonized peoples centuries later.

British experiences in Ireland and Scotland around 1800 may also have been one of the early historical origins of the sterling exchange standard articulated in India a century later by Lindsay.[13] A Report of an 1804 Committee to inquire on the Irish monetary problems has many parallels with the situation of India a century later.[14] The Irish Report noted (p.11) that the unfavorable exchange was due entirely to the 1797 Restriction Act passed by England to ensure that a proposed loan for Ireland would not endanger the safety of Bank of England reserves. The Irish Report suggested that Ireland should emulate Scottish banks, who maintained their own reserves in London, to ensure that its bill was not depreciated by speculators. The Report recommended that the ultimate solution, as had occurred with Scotland, was for the Irish and English monetary systems to be totally integrated.

The idea that the 'second' British Empire's colonial currency policies had precedence in the 'first' British Empire, has recently also been canvassed in

The Empire of Credit: The Financial Revolution in Britain, Ireland and America 1689–1915.[15]

West Indies (1600–1838)

From very early on, the rich West Indian sugar colonies of Jamaica and Barbados suffered severe shortages of currency. Petitions and memorials sent by Barbados to the British Board of Trade and Plantations in 1661, 1667 and 1668 asking for their own mint and other measures to alleviate the shortage of currency, were rejected (Chalmers: 49). West Indian merchants who were not able to earn sterling through exports, were forced to pay large exchange commissions, while their non-British coins, especially Spanish dollars or bullion, were 'vicariously' valued in England (Chalmers: 12). The Governor of Jamaica complained in 1671 that the scarcity of currency caused by the undervaluation of the Spanish silver reduced the demand for and production of Jamaican goods and thus discouraged the settlement of the island (Chalmers: 98). A 1678 proposal by the Committee for Trade and Plantations for the establishment of a Jamaican Mint for coins, which would be current only in Jamaica, was rejected by Britain.

As in Europe, the West Indian colonies responded to currency scarcity by sweating, clipping or 'raising' the coins used in payment to Britain and to other colonies, resulting in competitive devaluations. Thus Barbados, in 'raising' coins a *third* above their sterling ratings also drained the currency of Jamaica who then had to correspondingly raise her valuations. With creditors of the colonies protesting that the colonial raising or clipping of coins defrauded them, Britain set upper limits to the 'CURRENCY' values, which colonies could establish for the dollars, such as through the 1704 Proclamation.

The direct effect on Barbados was the export of all Spanish silver, causing a great scarcity of money (Shannon: 335). With transactions about to revert to crude barter, the Barbados Assembly in 1705 passed an Act to allow paper currency, with the Treasurer empowered to give out bills on security of land and slaves. However, with the colonies' major creditors protesting to England at being paid in paper money, Britain also disallowed the paper currency acts.[16] Barbados finally resorted to raising the denominations of foreign *gold* coins, which then became the basis of a Barbados gold standard, with a variety of debased coins as tokens.

Jamaica tried to counter the 1704 Proclamation by popularly agreeing to follow the maximum ratings only for *clipped* coins, while the full weight pieces of eight were rated higher than the imperial limits. With the Jamaican Governor eventually forced to comply with the imperial ruling, the result was that most Spanish silver was exported by 1738 (Chalmers: 101). With only light gold coins and base silver remaining in circulation, Jamaica also went on to a gold standard based on non-British coins.

Jamaica's currency was again destabilized after 1772, when Britain decided to further undervalue Spanish coins relative to Portuguese coins. Given that Jamaica was solidly in the currency area of Spanish America, the resulting inconvenience to trade led Jamaica to again raise its conventional rating of the Spanish doubloons and dollars, in contradiction of the imperial law.[17] By 1808, Jamaica had also adopted the Spanish ratio of 16 dollars to one gold doubloon and the corresponding currency ratings for the dollars and doubloons, and thereby more firmly reiterated its gold standard.[18] Barbados followed similar policies after a public meeting in 1816 and also went on to a gold standard.

The failed 1825 attempt to impose British silver tokens on colonies

Following the formal British adoption of the gold standard in 1816, the West Indian colonies again began to suffer from a dearth of both gold coins and dollars, which were attracted to Britain by the higher bullion prices being offered there (Chalmers: 148). In 1816, the West Indian colonies 'were unanimous in favor of a silver dollar as the standard' but the authorities took no action (Chalmers: 21). With only base silver coins left in circulation, the Jamaican Assembly in 1822 issued unsecured paper money simply to carry on the Colonial Government's business. The same year, Britain tried the experiment of sending to the West Indies a specially minted silver currency, called 'anchor money', which was of the same weight and fineness as the Spanish dollars. The Jamaican Governor informed Britain that the islands now did not want silver coins – they had enough.[19]

In 1825 came the imperial attempt to impose British silver tokens throughout the colonial Empire. The British Treasury, while acknowledging that the Spanish dollar had in general been the standard and prevalent coin in the colonies, claimed that it had too many problems of increasing diversity, valuation and adequate supplies. They advised the colonies that 'the best standard of circulation for the British colonies and possessions ... will be the silver and copper currencies now in circulation in this country, 'provided the same be made convertible, at the will of the holder, into the standard gold currency of the United Kingdom'.[20] A century later, this promise of convertibility into gold would be forgotten. The conversion was to be by means of bills of exchange, with a commission to be fixed for each colony. The Spanish dollar, was valued by the 1825 Order at 4s.4d. Sterling.

To help implement the 1825 Order in Council in Jamaica, some £35,000 in British silver was imported by the Commissariat between 1825 and 1828, and in 1832 the authorities granted a loan of £200,000 to the Colonial Government, delivered in British silver (Chalmers: 110). Both Jamaica and Barbados, however, wished to retain gold standards, based on the Spanish doubloon, with British shillings as tokens.

After the 1825 change in policy, Jamaica rated the British shillings at a quarter of a dollar in order to retain them in circulation.[21] This led to the relatively undervalued Spanish dollars being exported and the Jamaican currency strangely remained on a Spanish gold standard, with British shillings as tokens. The Barbados Assembly tried to follow the same policy, but the British authorities vetoed the enabling Legislative Bill.[22]

Eventually, the need for small currency forced the Governor in 1836 to allow the colonial ratings temporarily for six months so that the British shilling could circulate alongside the gold doubloon. In 1837 when the Governor refused to renew the ratings, a public meeting pledged to receive British silver coins at the rates declared in the expired Proclamation, although the British authorities objected to having British silver acting only as tokens. An 1837 Act by the Jamaican Assembly to limit the legal tender of British silver was disallowed by London.

The 1825 policy, while it led to the export of Spanish silver dollars, failed to establish British silver as the standard coin in the West Indies. The monetary standard remained gold, based on Spanish gold doubloons, alongside which British silver circulated as subsidiary coins.

The 1838 elimination of West Indian gold standards

In 1838, London claimed to have recognized errors in the 1825 valuations (Pennington: 83). It was argued that the free circulation of British silver *and* the silver dollars was impeded by the high proportionate rate at which the gold coins of Spain were made a legal tender.[23] The West Indian colonies were informed that the authorities wished to tackle the 'almost total disappearance of the Spanish dollar from the ordinary channels of circulation'[24] ignoring that it was the incorrect imperial sterling rating of the Spanish dollar, which had eliminated it in the first place.

The authorities admitted that the overvaluation of the gold coins 'rendered gold the ultimate standard to which all money contracts in the West Indies have reference' but 'according to the original meaning of the terms in which the money of account is expressed, silver is the commodity intended to be conveyed in all pecuniary contracts'. This logic had not been applied to Britain's own conversion of sterling to a gold standard.

Official historian Pennington himself felt the need to counter an internal Treasury view, which tried to argue that the West Indies had always been on a silver standard.[25] He advised the Treasury's decision-makers[26] that, if it was deemed expedient to establish the Spanish dollar as West Indian currency, the authorities would have to raise its nominal rate 3 or 4% above its existing rate. Pennington also pointed out what rates would establish a gold standard, which was clearly preferred by the colonies relative to the British tokens. Up till then, Pennington noted that whether the gold or silver standard was more suitable for the West Indies had not been decided 'either

practically or in point of principle'. While some writers have thought that Pennington was the architect of imperial colonial currency policies during 1834–38, this internal disagreement with the Lords of the Treasury indicates that Pennington was merely implementing orders, while disagreeing with his superiors in the hierarchy.[27]

The British authorities then introduced their 1838 Orders in Council for the West Indies, rating the Spanish doubloon at 64s. Sterling and the Spanish dollar at 4s.2d. Sterling, both values being significantly lower than that then available internationally.[28] Inevitably, the gold doubloons were exported, as had been the Spanish dollars after the 1825 legislation. Chalmers (1893:112) observed that the 1838 Order in Council 'permanently left Jamaica stocked with British token silver, and denuded of gold' and in the process also eliminated Jamaica's gold standard, despite opposition from the West Indian colonies.

Policy conflicts with Malta, Hong Kong and Mauritius: 1834–44

During this period, imperial disagreements with colonies were pervasive throughout the British Empire. When Malta came under British control in 1797, the authorities immediately reduced the rating of the doubloon from 16 to 15.5 dollars and rated the Spanish dollar at 4s.2d. Sterling.[29] The undervaluation of the Spanish dollar in all Civil receipts and payments resulted 'in getting rid of a considerable portion of the native coins… [and causing] a good deal of ill-feeling'.[30] The island's merchants sent an official memorandum of complaint to Britain on the unsatisfactory state of the currency, which now only contained the cheaper Sicilian dollar.[31] Eventually in 1824, the authorities were forced into raising the rating of the Spanish dollars to 4s.5.5d. Sterling, bringing them back into circulation.

A May 1834 Order in Council then proclaimed that not only the Spanish but the cheaper South American dollar would be rated at 4s.4d. Sterling. Malta's currency then came to be dominated by the South American dollar and British silver tokens, on both of which the Maltese merchants lost in exchange.[32] Malta's firms again protested to Britain about the evils of the depreciated British silver tokens, to little effect. The British Treasury simply offered a larger supply of British tokens and claimed that[33] 'as the receipt of this coin by the Commissariat and other public departments without limitation as to its amount, as well as its availableness for remittance to this country, will fully maintain it nominal value, Her Majesty's Government see no reason to doubt that it will very sufficiently answer all purposes of local currency'. Yet the Maltese merchants wanted more than just a local currency.

Following their successes in the West Indies, Britain issued another Order in Council in 1844 reducing the sterling rating of all dollars to 4s.2d. Seen

in Malta as a forced depreciation, the imperial edict was circumvented, as in other colonies, by the public popularly RAISING the Spanish dollars to between 4s.4d and 4s.4.5d. Sterling. With most of the British coins remitted to England, the authorities admitted that it would be futile to expect Mexican dollars to circulate at 4s.2d. Sterling when they were still current in the neighboring regions at 4s.4d.[34] With Malta's businesses then trying to use the inferior Sicilian dollar at 4s.2d., the British authorities issued an Order in Council reducing it further to 4s., claiming that they wished to assimilate the Maltese standard of value to that of Britain. Again, the public defied the imperial valuation by agreeing amongst themselves to circulate the Sicilian dollar at 4s.2d.

In 1845, fearing that the British Government was about to inject a large amount of British silver into Malta, the local banks, merchants and traders all signed a convention, which agreed to receive the Sicilian dollar at 4s.2d. and the Spanish dollar at 4s.4d., unless the British Government limited the legal tender of British silver to 40 shillings, as in Britain. The Maltese merchants, while they could not prevent British silver from coming into the island, wished to channel it into reservoirs until needed for remittance back to Britain.[35] British authorities were aware that the reason why the British silver was not acceptable to the Maltese merchants was because 'by practical experience ... [they] knew that the British silver did not go everywhere as easily as the British sovereign' and even for regional trade they were forced to first exchange it in London for Spanish dollars.[36] The Maltese merchants were not objecting to the full British sterling currency as represented by sovereigns or Bank of England notes, but only to the subsidiary silver tokens coins which could not be used for international payments without loss in exchange.

Governor Robinson pointed out similar contradictions in imperial policy in Hong Kong, concluding that the 1844 Proclamation had been a 'dead letter'.[37] In Hong Kong and all the Chinese ports, the silver dollars were all traded by *weight* of fine silver. Robinson saw no grounds for rating the dollar at 4s.2d. or 'any rate below the par founded on the average relative value of gold and silver in the European market'. He argued that to rate the dollar at 4s.2d., if the true par was 4s.4d., was equivalent to issuing the sovereign at 19s. Other authors have observed that Spanish dollars circulated at 4s.4d., even in Australia.[38]

Mauritius had similarly opposed imperial currency valuations that had driven out both the gold sovereigns and Indian rupees, leaving only British silver tokens of unlimited legal tender. James Wilson, a Treasury official, had acknowledged in a 1851 memorandum on Mauritius that 'had foreign coins been correctly rated, had British silver tokens been limited in legal tender to 40s., as in England, the sovereign could never have commanded a premium, but must have circulated freely in the colony'.[39] Wilson concluded that gold did not circulate in Mauritius purely because of the Treasury's wrong legal valuations.[40]

Similar policies were implemented in nearly all the other British colonies. From 1825, the British West African colonies found that deliberate imperial undervaluation discouraged or completely eliminated the circulations of gold coins (Spanish doubloons, British sovereigns, American eagles) as well as internationally accepted silver coins like the Spanish dollars and French five-franc pieces[41]. Some colonial governments even profited by receiving these coins at the legal values and selling them in London and Europe at the higher market values[42]. Nelson (1987) has an incorrect analysis of imperial currency policies in Mauritius and the Straits Settlements.

British silver in colonies, not 'sterling by another name'

Numerous historians have thought that the British silver currency being forced on colonies by the imperial authorities was simply 'sterling by another name' equivalent to the sterling in use in the metropolitan centers. That assurance had indeed been given by the imperial authorities when British silver was first being sent to colonies but was never intended to be the case.

In 1845 the authorities in justifying the enforcement of British silver tokens in Malta, claimed that while limited in legal tender in Britain, it would be readily accepted by authorities in payment of sums 'much beyond that limit'. They claimed that the British silver would be 'generally available for remittance to the Mother country, or to other colonies' and were guaranteed 'realization, at all times, of the full nominal value of the coins'.[43] Chalmers noted (p.31) that the circulation of British tokens in colonies was 'directly encouraged by the liberality of the Imperial Government in paying freight'.

Treasury official Wilson, however, acknowledged the validity of the Mauritius complaint that the 'pound' introduced by the authorities had not been the gold standard pound sterling, but a depreciated pound of account only. Wilson puzzled over the fact that while the authorities had intended to introduce into the colonies a uniform standard of value, coin and money of account[44] 'it was at the same time contemplated by the Government, that the only circulating medium should be British silver, *excluding gold*. Why this was done I never could understand. But I suspect it arose from a participation in a popular delusion, that a gold circulation is more expensive than a silver one;[45] and from the apprehension, quite unfounded to any important extent, *of trenching upon the gold reserve of the Bank of England*' (my emphases)

While Wilson found it difficult to believe that the 'Lords of the Treasury…really contemplated an advantage from the use of a depreciated coin, or were influenced by the paltry considerations of the profit of coining silver', these were probably the real imperial motives. Chalmers (1893:24), for instance, had recorded that because Britain had to make large annual payments in specie to colonial officials, the authorities hoped that if British

silver could be permanently established as the circulating medium in the colonies, it would 'not only save the expense of shipping specie, but also swell the Imperial gain by seigniorage on subsidiary silver'.

The above account is an excellent illustration of 'historical amnesia' of imperial historians who later denied that Britain had any legal obligation to redeem the British silver tokens. Even Chalmers strangely argued (1893:32) that Britain had 'never recognized any title on the part of holders of silver (or bronze) coins to have such coins re-exchanged for gold'.[46] Yet Treasury official Wilson, had fully expected in 1851 that it was 'a plain pecuniary duty of the Government in reforming a depreciated currency (British tokens), to redeem their coins at full value' because 'the Government in paying them out to the troops, and for salaries due in sterling money, have at least received their full value for them in services'[47].

The deviousness of the imperial authorities may be seen from their 1825 observation that because the British silver coins were tokens, there would be 'no inducement to export a currency of this description to foreign countries'.[48] They also thought that 'if the rate at which bills would be obtainable for it upon England, be fixed in such a manner as to be about equal to the expense and risk of bringing it to England, the danger of any inconvenience from its reimportation into this country, would in like manner be avoided'.[49] An 1830 internal Treasury Memorandum on Colonial Currency[50] recorded that while it was 'most advantageous... on account of the seigniorage' for the authorities to send British silver rather than Spanish dollars, 'it would be expedient to make the greater part of remittances of British money in shillings and sixpences, rather than in half-crowns and crowns which can be most readily collected on the spot and disposed of in large quantities by the merchants in England'.

Shannon (1951:336) was incorrect in thinking that the authorities in 1825 intended to ensure that the colonies had 'good coin convertible into gold' or that the Treasury did not intend 'either in 1825 or under the amendments of 1838–44, to make the shilling the sole or main unit of coinage in the colonies'. On the contrary, the British Treasury expected that the British silver tokens, would not only become the standard coins, but unlike sovereigns or Bank of England notes, would not be used in international payments to either non-British countries or to Britain itself.[51]

The British authorities did not use British tokens because they were more suitable as lower denominations, as has been argued by several historians of colonial currencies. While one purpose of an exchange standard may be seen as the guaranteeing of convertibility, its use as a mechanism to *limit* the circulation of the local currency was the critical factor in imperial thinking, as it was also in their early Irish experiment.

Given that currencies would only have been paid across colonial borders through the normal functioning of market forces for trade or capital flows, in deliberately replacing currencies which were already functioning as

universal equivalents and international means of payment by purely localized currencies, the authorities were also thereby deliberately limiting the colonial market and economy and holders of colonial currency, especially the local natives.

Imperial currency policy in India illustrates the basic continuity and unity of British currency policy throughout the British Empire during the eighteenth and nineteenth centuries.

Demonetization of gold and imposition of silver in India: 1805–93

By the beginning of the nineteenth century, India had become the jewel in the imperial crown, having the greatest bearing on the flows and reserves of gold and silver in London. Before the British, gold, silver and copper coins had circulated under strict standards for centuries, with gold tending to be dominant under the Hindu Emperors, and silver tending to dominate under the Muslim rulers.[52] In the eighteenth century, the standard coins in the north were generally the silver rupee together with the gold mohur.[53] In the south, however, the standard coin and medium of exchange was the gold pagoda, an internationally accepted coin with a wide currency area stretching to Australia.[54] The British authorities recognized that in the Madras Presidency gold coins were the principal currency, money of account and the measure by which the pay of troops was generally calculated (Chalmers: 342). Even at the end of the eighteenth century both gold and silver coins circulated concurrently.[55]

Whether true bimetallism or merely currencies in parallel[56] the Bengal Government had often been forced to legalize gold because of the scarcity of silver (Coyajee 1930:8). Bagchi (1985:502) points out that a 1799 Committee's recommendation in Madras to replace gold pagodas by silver coins could not be implemented because of a general scarcity of silver.

Towards the end of the eighteenth century, the London-based Court of Directors of the East India Company decided that gold currencies should be discouraged in India and replaced by a monometallic silver rupee standard with the implementation to be left to the Presidencies of Madras, Bengal and Bombay (Ambedkar 1947:16). In Madras a 1799 Committee recommended that silver rupees should replace the gold pagodas (Chalmers: 343). In 1810, the authorities stopped the coinage of the gold pagodas except by individuals, and limited them only to payments *into* the Government Treasuries. In 1818 the coinage of the gold pagoda was discontinued altogether and a new silver rupee began to be minted as the sole standard coin of the Madras Presidency. It now had a reduced silver fineness, while the authorities deducted a significant seigniorage charge.

Similar processes were also set into motion in the other Presidencies of Bengal and Bombay (Chalmers: 341). However, when the East India Company

tried in 1833 to demonetize gold throughout India, it met the opposition of the local Governments. The Bengal Presidency was not only reluctant to abandon its own *sicca* rupee, which had a different weight and fineness from the Madras rupee, but it also tried to create a bimetallic system with the concurrent coinage of the gold mohurs (Ambedkar 1947:18–19).

In the same year, an Imperial system of administration was set up for all India and in 1835, the Madras silver rupee was established as the standard coin for British India, with all gold coins demonetized (Ambedkar 1947: 20–21). India's bimetallic system had been replaced by silver monometallism, based on silver rupee tokens.

Chalmers (pp. 4, 338) had argued that the change of India's monetary standard to the Indian rupee was justified by Lord Liverpool's Treatise, which had argued that bimetallism was impractical. Yet the fundamental objective of the treatise had been to explain the superiority of the gold standard over silver and bimetallism. Moreover, while Lord Liverpool's Treatise had argued that seigniorage should not be taken out of the standard coin, the new British rupees had their silver fineness reduced, and a seigniorage charge of 2% extracted, leaving a silver coin with intrinsic value of only 1s.10.6d (Chalmers: 338–39). The old Indian silver rupees had been of a higher fineness and, valued at 2s.1d. Sterling equivalent to its intrinsic silver value (see Table A.1 in the Appendix), and had circulated as far as Australia. As Lord Liverpool had argued for the sovereign, the removal of the seigniorage also interfered with the rupee's international circulation.[57]

There have been many incorrect arguments; such as that silver was the original money of account and exchange in India[58] or that the imperial authorities were not averse to the circulation of gold and, at various times, even attempted to introduce gold into circulation in India. However, while the regulations allowed the coining of a gold rupee of equal weight and fineness, the legal gold–silver ratios invariably undervalued gold relative to the market ratios and would have meant a loss if the public brought gold to be coined or if they paid their debts in gold.[59] Similarly, the legal undervaluation of the sovereign at ten rupees also meant that it would not circulate. The deliberate imperial undervaluation of the gold mohur eliminated its circulation. Separate attempts in Bengal in 1766, 1769 and 1793 to coin and issue mohurs, and in Madras in 1749, 1790 and 1797, were failures for this reason.

These imperial policies were maintained throughout the nineteenth century. While the mint laws technically allowed gold coins to be coined, the authorities charged a prohibitive seigniorage of 2%. After 1837, the authorities reduced the seigniorage to 1% to no avail: gold was not brought to the mints for coining. Equally futile was the 1841 Proclamation, which authorized the Government Treasurers to freely receive, but not pay out, gold mohurs as the equivalent of 15 silver rupees. Again, no gold was received since at this rate the gold was significantly undervalued (Ambedkar: 23).

However, when the market value of gold temporarily dropped after the Australian and Californian gold discoveries of 1848, and for a brief period after 1768, the public showed an acute awareness of the market ratio of gold to silver, and immediately used gold for payment into Government treasuries (Ambedkar, 1947, pp. 13–14). The asymmetrical nature of imperial policy may be seen in that while they allowed gold to be used in payment at rates that gave the government an advantage, the authorities immediately passed legislation in 1852, stopping gold from being received by government when the rates implied a slight advantage to the public (Ambedkar: 24).

The seriousness of the discrepancies in currency policy was underlined when an export-led boom in the Indian economy in the middle of the century, led to an extreme scarcity of currency. Between 1850 and 1870, more than £150 millions of silver was imported into India and roughly the same amount coined. In contrast, while more than £50 millions of gold was imported, less than £2 millions were actually coined (Table A.2B, Appendix). With the currency scarcity leading to an increasing use of gold ingots as currency certified by local banks, Chambers of Commerce urgently requested the authorities to establish a gold currency (Ambedkar: 39). A Government of India proposal in 1864 to monetize the gold sovereign and make currency notes redeemable into sovereigns was opposed by London on the grounds that this would be introducing bimetallism (Ambedkar: 41). The authorities were nevertheless prepared to authorize the Indian treasuries to *receive* the sovereigns as the equivalent of ten rupees each, but to pay out in sovereigns only 'when available' (Ambedkar: 43). While Chandavarkar (1984: 769) stated that the authorities were thereby trying to encourage the circulation of the gold sovereigns, Hawtrey (1919: 337) correctly pointed out that the official rupee rates undervalued the sovereigns, which would not therefore circulate.

Continued calls by Chambers of Commerce for conversion of India's currency system to a gold standard eventually led to the establishment of the 1867 Mansfield Commission of Inquiry. The Mansfield Commission reported that the paper currency had failed to establish itself in India and that gold was finding a larger place in the people's transactions. It urged the Government to make gold legal tender and also to introduce a national currency note, which could be cashed throughout British India. The authorities took no action.

From 1871 when the metropolitan countries adopted gold standards and demonetized silver, silver and silver standard currencies began to depreciate, and silver bullion flowed into India and other colonies still open to silver. The depreciation of silver and the rupee led to another proposal in 1872 from the Government of India to establish a gold standard. The authorities took no action and in 1874, the authorities announced their 'unwillingness to take any steps towards the conferment of legal tender status on gold'.[60] Proposals in 1876 by the Master of the Indian Mint to stop further coining

of silver for the public and to adopt the gold standard based on sovereigns were again rejected (Ambedkar: 112–15).

The severe budgetary problem of gathering more rupees to pay an appreciating sterling debt forced the Government of India in 1878 to propose reforms.[61] Possibly at imperial instigation, the Government of India now claimed that India would benefit if it adopted a 'gold standard' based on a circulation of *silver* coins, pointing to a number of countries where a currency 'devoid of any intrinsic value whatever' was capable of performing the work of a metallic currency satisfactorily, so long as excessive issues were guarded against (Ambedkar: 117–19). They assured that their objective was not to force on India a gold currency, but rather 'to avoid such a result, or to check the tendency in that direction'. They proposed to allow gold coin to enter India, but not in preference to silver, although gold would still be excluded from legal tender status in India.

Even these weak proposals were rejected by Britain on the dubious grounds that they would be creating a 'managed currency'. The authorities claimed that the natural working of the market forces would boost Indian exports and lead to a greater Indian absorption of silver, whose price would be stabilized if not raised. Jevons advised British authorities to wait for good harvests in India so that the inhabitants would buy up all the surplus British silver, as she had historically done for centuries.[62] Silver kept depreciating and pouring into India as bullion and was even made subject to a 5% duty.

Balfour, the Conservative Leader of the House of Commons, complained that, while Britain had a gold standard and some parts of the British Empire like Hong Kong and the Straits had a different silver standard, in India debts were measured and paid in something which was neither gold nor silver but a currency which was as 'arbitrary as any forced paper currency...expensive as any metallic currency [and which] combine[d] in itself all the disadvantages of every system of currency which human beings have ever tried before' (Russel 1898:437). International monetary conferences to consider bimetallism were convened and failed (Chapter 2). Although the rupee continued its depreciation, and despite frequent calls by the Government of India for a common monetary standard between England and India, the authorities took no action.

The India Herschell Committee, 1892

The Herschell Committee was established to inquire whether India should stop the free coinage of silver 'with a view to the introduction of a gold standard' (Chandavarkar: 770). Its report noted that with Home Charges[63] being designated as gold obligations while India's currency was based on silver, there was a need to maintain the gold value of British officials' remittances to Britain. The report observed that the burden of the depreciation of the rupees had been borne by the poorer classes through fiscal imposition as well as inflation

caused by the falling exchange, and argued that additional taxation would only give fuel to political agitators. The report asserted that while the falling exchange might benefit exporters from India, it could not benefit India as a whole. It made the criticism that in making silver coins the standard of India, the Government of India had attracted a metal at high present and future cost to India since its value had depreciated and was continuing to do so. It noted that closing the Indian Mints to silver from the Indian public would devalue the Indian peasants' past savings, which they usually converted from rupees into ornaments, and vice versa when the need arose.

Virtually disregarding their own observations, the Report recommended that the Mints should be closed to the public, leaving the Government of India the monopoly use of the Indian Mints to give silver rupees in exchange for gold, at 1s.4d. per rupee. The Government could also receive gold sovereigns at the public treasuries in payment of dues at the rate of 15 rupees per sovereign. Although the Committee expressed some doubt about changing to a gold standard without a gold reserve, they noted the successful experience of other countries who had maintained gold standards without or with little gold (Ambedkar 136). Later, when the full effects of closing the Mints became known, the Report advised that the mints could be opened to the coinage of gold, with the gold coins being made full legal tender.

Astute Indian critics, such as Naoroji,[64] pointed out the contradictions of the Herschell Report and echoed many observations made at the international monetary conferences.[65] He said that exactly the same proposals from the Indian Government and Chambers of Commerce in 1877, 1878, 1879 and 1886 had been condemned by the British Treasury and rejected by the imperial authorities.[66] Naoroji warned that while the Indian Government, the British Civil Servants and other Englishmen and investors remitting money to London would benefit, it would be dishonestly increasing taxes; benefit creditors at the expense of debtors (especially peasants) by increasing every debt in India including the Governments' Indian debt; neither closing the Mints to silver nor establishing a Gold Standard would save a single farthing to the Indian taxpayer for the 'Home Charges', as an 1878 Dispatch from the Government of India to the Secretary of State had explained;[67] and the Indian adoption of the gold standard would forcibly reduce even further the value of India's silver which would then need to be sold on a falling market to acquire appreciating gold.

Chandavarkar (1984: 771) was therefore totally incorrect in concluding that the system recommended by Herschell was 'avowedly transitional, pointing towards the eventual establishment of the gold standard…to discourage the import of silver and to familiarize the use of the gold sovereign'. The imperial authorities had no such intentions, either for India or any other colony.

De Cecco (1974: 63) correctly concluded that the forcing of silver on India 'had a clear aim: to extract gold from circulation at a time when gold

production was stationary and demand, especially because of the cash repayments of the Bank of England, was running high'.[68] This became vital from 1774, when the legal convertibility of sterling depended on the availability of gold at the Bank of England. While India imported some £81 millions of gold and £158 millions of silver between 1850 and 1870,[69] Table A.2D (Appendix) shows that, between 1872 and 1888 Indian imports of gold were drastically reduced and even became an outflow in 1879, while imports of silver increased massively. Table A.2C (Appendix) also shows that, after 1877, Britain became a net exporter of gold.

It may be argued that a depreciating silver standard might have been 'good for India' and other silver standard colonies like the Straits because it led to a buoyant money supply in contrast to a conservative and deflationary gold standard that appeared to be associated with a major recession in the gold standard countries. Some commercial interests in India were indeed in support of the continued absorption of silver and retention of the silver standard for this reason. But Rothermund (1970) has pointed out that the externally generated increases in the supply of currency through silver imports was also restructuring the Indian economy away from domestic consumption towards typical colonial exports, during periods of massive domestic famines. Ambedkar (1947) has also argued that this economic buoyancy in India was completely at the cost of reduced real incomes for wage earners and peasants. Most importantly, however, the economic buoyancy, through an increased currency and money supply, could have equally occurred through less wasteful paper currency and credit money – based on government or private debt suitably directed for economic growth and development, as in Britain itself. Yet the imperial authorities adamantly opposed these.

Imperial opposition to colonial government note issues

British colonies in the New World suffered from scarcity of money, not just because of deliberate imperial policies on currency, but also because of the nature of the colonial economy. First, the growing colonial need for commodities from the Old World meant that there was a tendency for colonies to make a net export of currency to Britain.[70] Second, the absence of banking facilities meant that colonial currency supplies were widely scattered with low velocities of circulation. Third, British mercantilist laws prohibited the export of coin to colonies, while they vetoed similar colonial government laws which tried to ban the export of coin and bullion from colonies. Fourth, foreign coins – dollars and doubloons – were discouraged whenever Britain's imperial wars with Spain and Portugal led to the suppression of colonial trade with them. Fifth, British insistence on valuing foreign coins at rates lower than their international value led to their export wherever the law could be made effective. Given that in this period, much of

Britain's bullion was derived from the Spanish Empire, the net flow of specie was usually *from* the colonies *to* Britain.[71] Britain also prevented or outlawed mints in colonies, fearing that bullion might be drawn from Britain.[72]

The resultant scarcity of money had disastrous economic effects: trade was discouraged, credit severely constrained, and reputable freeholders were finding it impossible to pay debts which were insignificant in comparison to the value of their estates which had to be sold at ruinous prices (Hacker 1940: 158). However, colonial attempts to create flexible paper currency systems were opposed.[73] Early colonial governments, especially after they saw the relatively successful example of the Bank of England note issue, tried to counter their perennial currency stringency by advocating the issue of paper money, but were usually prevented by imperial decree.

Thus Britain disallowed a Barbados Bill of 1706, which would have legalized paper currency, even though the Bank of England was itself at that time engaging in inflationary issues (Johnson 1970:20). Nevertheless, either 'financial exigencies' led to the issuing of Government paper in some colonies (Jamaica in 1822, Prince Edward Island in 1825) or were an inheritance from the Dutch (as in Ceylon, the Cape and Guiana). In all cases, the authorities tried to have the paper currency withdrawn.

In 1847, a bank failure in Mauritius forced the colonial government to substitute Government notes for the private bank notes. The imperial authorities tried in 1857–58 to restore the Mauritius note issue to private hands, but failed supposedly because of unexplained 'local circumstances'. In lieu, they took measures in 1864 to ensure that the Mauritius Currency Commissioners held against the notes circulating, specie amounting to one-third as a minimum and a half as the standard, and imperial securities and Mauritius debentures to a maximum of one half, with the latter limited to a quarter of the circulation (Chalmers: 367). This was an early more liberal form of the currency board, which was not allowed to be duplicated elsewhere.

When Ceylon's Oriental Banking Corporation collapsed in 1884 the Governor in Ceylon assumed liability with the argument that the imperial authorities 'recognized that this decision admitted the principle of ultimate State liability for private issues' (Chalmers: 36). An 1884 Ordinance then required Ceylon to hold reserves of 50% in silver coin (Indian Government rupees) and the remaining 50% in securities. Worth noting is that 50% of the securities could be those of the Indian Government (Chalmers: 358); a measure opposed in most other colonies.

Weaker reserve requirements for private banks

In contrast to the restraints on government note issues, colonial private banks, mostly owned by metropolitan interests, were allowed to circulate their own notes with relative freedom. In 1838, the Treasury was only requiring private bank notes to be convertible into specie on demand, with

shareholders being liable for twice the amount of their shares. By 1840, the Treasury in concert with the Board of Trade, begin to recommend that the 'debts or engagements of the Company on Promissory Notes, or otherwise' were not to exceed three times the deposits in specie or Government paper (Chalmers: 429).

In 1846, a circular from Downing Street set out regulations for the Banking Companies established in the colonies, supposedly to control, in the interests of the 'poorer classes', the issue of promissory notes, payable in specie on demand (Chalmers: 242–45). The companies were 'not to advance Money on security of Lands or Houses or Ships, or on pledge of merchandise, nor to hold Lands or Houses, except for the transaction of its business, nor own ships, or to be engaged in Trade, except as dealers in Bullion or Bills of Exchange; but to confine its transactions to discounting Commercial Paper and Negotiable Securities, and other legitimate Banking Business'. The total amount of the promissory notes issued was not to exceed the paid-up Capital Stock of the company and the total amount of debts and liabilities over and above the deposits, were not to exceed three times the paid-up capital stock. The banks were required to maintain a minimum reserve of specie equal to only one-third of the notes in circulation.

For the Colonial Bank in the West Indies, while the Treasury in 1888 would have preferred the fiduciary backing to be Government securities, they allowed provision for the first charge to be on assets or, in the case of insolvency, on capital.[74]

By 1897, the Colonial Office had agreed to reserves of securities, to the value of only one quarter of the possible note issue, with the first charge being on uncalled capital. In 1889, the Treasury ruled that for the Hong Kong and Shanghai Bank, it was not necessary to provide for the hypothecation of securities in the reserve, but by 1890, securities were being earmarked. Its note issue was allowed with the deposit of securities worth one-third of the possible issue. Significantly, Chinese securities were allowed then, but refused by 1896.[75]

The one area in which imperial policy for private bank notes corresponded to those later required for government notes, was in the security backing allowed as part of the reserves. For the Chartered Bank of India, Australia and China, Japanese Government bonds were accepted in 1895, but Chinese Government and Penang Municipal Bonds rejected.[76] By 1898, the Japanese Bonds were, however, being replaced by Colonial Stock, and the Chinese Bonds by metropolitan Consolidated stock.[77]

In 1901, the Bank's proposals to replace certain securities held by the Crown Agents with Singapore Municipal Debentures, was refused by the Treasury.[78] When they applied in 1903 to be allowed to substitute Egyptian and Belgian stocks for metropolitan stock, the Treasury ruled that their approval be required for increased investments in any particular security.[79] By 1905, the Colonial Office was objecting to 'too much' Cape stock in

the security holdings of the Colonial Bank in the West Indies.[80] By 1906, the Chartered Bank of India, Australia and China, were changing stock from dollar securities to sterling securities.[81] The Treasury was concerned in 1910, that South Australia stock was being substituted for War Stock by the Colonial Bank in the West Indies. When the Hong Kong and Shanghai Bank tried to substitute Canadian stock for Consols, the Treasury objected, insisting that the bulk of such securities should conform with directives given in 1900. The next year, they refused permission for the Chartered Bank of India, Australia and China to substitute not only foreign but also *colonial* stocks for British stocks.[82]

However, when note issue proposals came up for Rhodesia, the Treasury recommended that for banking and currency purposes, it should be regarded as part of South Africa. For its note issue guarantee fund, the Treasury proposed that two third of the note issue could be in debentures of the British South Africa Co. with one-third in gold coin. When the banks opposed these recommendations, the Treasury then proposed that the fund should consist of *British Government* securities worth two-thirds of the issue and one-third Cape and Natal Stock or Debentures of B.S.A. Co.[83]

Chalmers (1893:33–34) argued that private bank notes, which were on the same footing as any other liability of the bank, were not limited by any clear or precise provision (although the Imperial Government never 'countenanced any proposal to make Bank Notes legal tender') and the provision was wholly inadequate to safeguard the notes. Yet he also concluded (1893:35) that these regulations had 'withstood the rigorous tests of practical experience throughout half a century and in every quarter of the globe'. Yet, despite the relative success of private note issues in colonies, the authorities decided between 1884 and 1889 that every legitimate opportunity should be taken to replace private note issues with state issues, but only in colonies that were not self-governing.[84] Similar imperial policies towards paper currency in India are included in the next chapter, to maintain a continuity of analysis of the Indian currency and monetary system.

Imperial differential policies for colonial government note issues and private bank note issues were made explicit in the 1894 Mowatt Memorandum written within the Treasury.

The 1894 Mowatt Memorandum[85]

The Treasury sent the Mowatt Memorandum to the Colonial Office in 1894, outlining the colonial note issue regulations that had existed over the previous half-century and the way forward. It claimed that opinion in colonies generally favored note issues by private banks rather than by colonial government and that from 1853, Treasury policy determined by James Wilson and Arbuthnot had altogether discouraged colonial government issues. Imperial policy then supposedly changed because of the collapse of

the Oriental Bank in Ceylon.[86] Treasury claimed to be concerned that the existing fluctuations in the gold-price of silver, exposing the banks trading in the East to great difficulty and danger.

The memorandum stated that colonial government note issues would be allowed, but under rigid rules: the notes would be issued by a Commission independent of the Government, in exchange for a *standard* coin; the notes had to have absolute security and convertibility; a note guarantee fund would be held partly in securities and partly in coin; the securities had to be those of the United Kingdom or a British possession other than the issuing Colony; the income from the securities was to be added to a Depreciation Fund, to pay off Imperial loans, with any remainder going to General Colonial Revenue; if the coin was insufficient and a panic ensued, the Government was to declare the notes legal tender and wait for the encashment of securities but the Colonial Revenue was to be used to pay for any notes the Fund could not redeem; if there were token coins with some limit of legal tender, notes below that limit would be cashed only at the pleasure of the Commissioners; conversely, a member of the public cashing notes should not be required to receive token coins above the legal tender limit;[87] and the Secretary of State might be given special powers 'to sanction investments in other securities with a view to most speedy conversion of such securities into cash, and to authorize the acquisition of *token coin* in lieu of investment'.[88]

The Mowatt Memorandum justified the fiduciary portion by referring to the experience of the Bank of England, which showed that in a community using bank notes, a certain amount was always required for the needs of daily life, and was 'practically never presented for cash, even in times of restriction or of panic'. Since this information was not available for the colonies, the Treasury thought that it would be safer to hold coin amounting to not less than two-thirds of the notes issued, which proportion could then be reduced with experience, to no less than a half.

However, where *private* bank notes were concerned, the memorandum stated that a private bank sought a right of issue for the sake of profits, and the Government 'if it grants the right, practically admits the reason for which the grant is sought. It is inexpedient, therefore, to impose conditions which could deprive the grant of the chief part of its value, and my Lords do not look favorably on proposals which would require an issuing bank to deposit with the local Government, legal tender coin against a large proportion of its issue. The condition would be too onerous, for not only would so much of the capital of the banks as is represented by the deposit be altogether unproductive, but the bank must keep in addition a certain amount of till money.'

Thus, Treasury requirements for private bank issues were that the notes were to be a first charge on the assets of the bank; the full amount of the issue plus 5% was to be covered by securities of the same order as required

for the official note guarantee fund; that the banks should not be monopolies and their notes were not to be legal tender; and that 1% of the value of the note issue was to be paid to the government.

The Mowatt Memorandum raises many interesting issues regarding imperial policy on private and public control over colonial money, despite the latter being far more secure than the former. First, the fiduciary principle of the Bank of England notes was not to be allowed in colonies. While the Bank of England notes were backed by British securities, mostly of the British Government, the colonial note issues would not be allowed to have a backing of colonial government securities.

Second, the Treasury's more stringent reserves requirement for colonial government note issues was quite irrational. Colonial government notes, because of the government's official revenue, would have been more secure than the notes of purely private banks, and should have required proportionately lower reserves. The Treasury position was quite paradoxical since they explicitly acknowledged that similar stringent requirements on private bank notes would be too 'onerous' in depriving them of profits while making their capital 'unproductive'. The extent to which ownership of private colonial commercial banks, which were allowed leniency by the imperial authorities, was in British interests favored by imperial decision makers, ought to be a fruitful area of research.

British authorities had for centuries resisted calls, for instance by Ricardo, to establish a government note issuing bank. Treasury notes would not be issued until the emergencies created by World War I, and the Bank of England would not be nationalized until after World War II.

To set the stage for the next three chapters, it is useful to outline the reserve crises between 1890 and 1914 and the Blackett Memorandum, which explicitly revealed the imperial priorities and benefits in the creation of colonial sterling reserves in London.

Reserves crises in London 1890–1914

There was the 1890 Baring collapse, the 1899–1902 Boer War, and reserves crisis during 1905–06 and 1907–08.[89] There were also other minor reserves crises in London associated with the Sino-Japanese war 1894–95, the Spanish-American War (1898), the Agadir incident (1911), the Italian–Turkish War (1911–12) and the two Balkan wars, (1912–13).

The 1890 crisis, started by the Barings collapse, was worsened by the withdrawal of a mere million pounds by Russia, while the relatively small sum of £18 millions was found sufficient to alleviate the crisis.[90] The Bank rate was found to be inadequate, and in addition to other sources[91] the Bank obtained Indian funds through the India Council but tried to keep the deal private. Scattered evidence indicates that Indian funds may have been used as early as 1878, in 1893 and again between 1896 and 1899.[92]

Despite the increased gold supply from the Rand, London's reserves were threatened again over 1896–97 by a large withdrawal of Japanese gold and the shipment in 1898 of some South African gold to Germany which was feared to be building a war chest of gold reserves.[93] With the Boer War constraining the supplies of the Rand gold, and with the British Government issuing unpopular securities to finance the war, the Bank was forced between 1899 and 1900 to use gold devices to stop the outflow of gold. Marks and Trapido[94] argued that one of the causes of Britain's entry into the Boer War was the slenderness of London's gold reserves. Indian funds were again used as a buffer.[95] Between 1900 and 1901, in addition to loans abroad to obtain gold in London and higher discount rates, one stop-gap solution was the conversion of the Indian Gold Standard Reserve into British Government securities.[96]

In 1902 the Chancellor's new policy of borrowing in the market rather than at the Bank caused severe stringency by the issue of a mere £7.5 millions of Treasury Bills.[97] At the end of 1903 large gold withdrawals by Egypt not only forced the Bank to buy gold at the market price but also obtain colonial deposits by working through the Crown Agents for Colonies.[98] With economic recession continuing and the Bank not wishing to discourage recovery, and with an increase in political uncertainty, the Bank used gold devices continuously from 1901 to 1905 to build up reserves, as did her competing powers.[99]

Gold devices had to be used again at the end of 1905 to prevent a large drain to US and over 1905–06, but the Bank's attempt to borrow from the joint-stock banks was criticized for creating stringency in the London Money Market.[100]

Despite a high discount rate, a large 1906 drain to Russia as well as an internal drain again led to dangerously low reserves. The crisis was averted only with assistance from France, through the purchase of sterling bills and through Japanese deposits.[101]

In 1907, with the American crisis draining London's gold, the Bank's recall of its loans to British banks was again criticized for causing stringency in the market.[102] At the end of 1907, with the Bank's reserves alarmingly declining by almost a half, to help alleviate the crisis some £2.5 millions 'were unearmarked from the Indian account at the Bank of England'. Other measures were drawing £7 millions from Germany, £3.5 millions from France, £6.5 millions from colonies with gold mines, and raising the bank rate to 7%.[103] In 1908, despite continuing pressures on the London reserves, exports of gold were made possible with the help of the 'unearmarking of some £2,000,000 more from the Indian balances at the Bank'.[104]

With indications from 1909 onwards that war was looming, London began to face general gold reserves shortages as other metropolitan countries all began to stock up. The underlying factors for Britain were long-run structural and institutional pressures on sterling's balance of payments. First,

there was the continuing relative international decline in Britain's industrial supremacy,[105] with one major cause being the increasing tendency of British finance capital to divorce itself from British industry in order to export capital on a massive scale. In this period, London was financing a massive jump in overseas investment, which between 1870 and 1913 tripled from £54 millions to £172 millions annually, although there were two periods of serious decline, over 1875–79 and 1900–04.[106] Total British overseas investments grew from only 1.3 billion dollars in 1870 to 18.3 billions by 1913 (Barratt Brown, p.171). Pressured also by Britain's large and increasing deficits on its trading account, Britain's surpluses on its current account were fully absorbed, and by 1913 significantly exceeded.[107]

Second, there was an intensification of the old rivalry between the Bank of England and the bill-brokers and joint stock banks, which were increasing their own independent gold reserves.[108] The joint-stock banks, utilizing the cheque deposit system to the full, held minimal reserves with the Bank of England, while being free to switch funds around the world. The Bank of England was thus faced with the responsibility to stabilize the London money market without being able to fully control liquidity creation or Britain's gold reserves.

Third, the Bank faced increasing difficulties in using the discount rate to attract gold. Not only was this politically more undesirable because of the effect on the domestic economy, but also, by 1890, it had simply become less effective in attracting gold. If a rate higher than the Bank Rate was charged to attract and retain gold, it also strengthened their competitors, such as France, who in this period 'became the real international banker'.[109]

With increased competition also from New York, London was less able to weather crises: increasingly, the Bank was forced to adopt other 'gold devices' to attract and keep gold in London.[110] By the early 1900s, the gold devices had also become ineffective – competitors were using the same techniques.[111]

By 1909, there were heavy internal gold withdrawals also as banks began accumulating reserves separate from the Bank.[112] In March 1910, because of a Budget controversy, the Exchequer was empty and although the Bank of England used a number of devices to attract gold, it did not have any great success.[113] Between 1909 and 1913, Germany, Russia and others also began accumulating the gold reserves they considered essential for waging war.[114]

The 1914 Blackett Memorandum: 'mission accomplished'

From as early as the 1880s, British officials, academics and politicians[115] had worried about the inadequacy of Britain's gold reserves, not only in contrast to her imperial competitors[116] but also relative to her trading needs. While the ratios of official reserves to imports over the three decades to 1913 were all rising for the United States (to over 70%), France (to between

Table 3.1 Official reserves (£millions)

	1889	1899	1910	*Change 1899 to 1910*
United States	87	141	289	202
France	50	74	130	80
Germany	18	29	39	21
Bank of England	18	29	31	13

40 and 50%) and most other countries (to over 10%), Britain had a ratio of 10% for only 1896, and thereafter showed a decline to 5% by 1913.[117] Britain's reserves were not only extremely small but, between 1889 and 2013, showed a very small increase compared to that of the United States and France.

The 1890 crisis led to a number of suggestions for reform, with greatest urgency being seen as the need to increase gold reserves.[118] Pressnell notes (1968: 216) that 'From the Treasury, Welby made a lengthy, occasionally impassioned plea to the stubborn Gladstone. Gold reserves had long needed to be augmented ... because other countries' gold policies limited England's ability to draw gold from abroad in an emergency'. While some London bankers such as Schuster of the Union of London and Smith's Bank wanted a reserve separate from that of the Bank of England, others also kept their own reserves, out of reach of the Bank.

While there is much material in this book to indicate the close cooperation between the British Treasury, the Bank of England and the City, Pressnell (1968) also points out that, during the last decades of the nineteenth century, the Chancellor of the Exchequer also saw the need to fight the power of the Bank and the City, which were clearly in a strong position to dictate the terms on what the British Government could borrow on the London money market. Pressnell quoted Gladstone (1968:171): he wanted to provide 'the minister of finance with a strong financial arm, and to secure his independence of the City by giving him a large and certain command of money'. The colonial reserves in London, under the control of the Secretary of State for India and the Secretary of State for the colonies, provided that very facility.

The 1907–08 crisis led to the appointment or revival of numerous committees who all agreed on the need for higher gold reserves but the central problem was that the Bank of England did not wish to maintain such reserves, since this would reduce its profitability.[119] Some influential bankers wanted a second reserve of gold separate from the Bank's earmarked gold. The authorities also wished to imitate the Germans in having a 'war chest' separate from the Bank's reserves, while historically they had also wished to have a 'strong financial arm [and] a large and certain command of money' which would give them some independence from the City.[120] The need for

extra gold reserves came to a head during the 1914 reserves crisis, one of whose causes was that in creating their own 'Gold Committee' and separate gold reserves, the joint-stock banks were undermining the Bank.[121]

One result of the crisis was a candid and revealing memorandum written by Sir Basil Blackett (Blackett Memorandum), advising the Chancellor on the adequacy or otherwise of London's gold reserves.[122] Blackett had been the Secretary to the 1913 Chamberlain Commission of Inquiry; the inquiry's report had repudiated criticisms of the authorities' Indian currency policy.[123]

The memorandum advised that, even though London's reserves seemed slender, it would be utterly wasteful for the Bank to keep large reserves of gold, because of the 'rapid rate at which Gold Reserves have been accumulated by countries which formerly had little or no gold…India, the Straits Settlements, have all built up special funds to secure the stability of the exchange value of their currencies'.

The memorandum pointed out two direct advantages for Britain. Firstly, the colonial sterling reserves had thereby enabled Britain to invest increasing amounts in the development of these countries 'with full confidence that the funds so invested will not, as in the former days, be locked up in times of need at home, but that a sufficient amount of liquid assets convertible without ruinous sacrifice into sterling money will be available in the country at a pinch.'[124]

Second, it noted that these countries had thereby also 'relieved London's Gold Reserves of part of their former burden, and pro tanto, these new reserves take the place of corresponding additions to our reserves and furnish a strong presumption that our present reserves are adequate, seeing that they have increased but slightly above the figures of twenty years ago.' The memorandum pointed out that, while the colonial gold reserves were technically separate ('earmarked') from those of the Bank of England, they nevertheless could be exported to the older monetary centers at times of need. It implicitly acknowledged that deception was being practiced on the colonies, warning that:

> this is an argument which must be cautiously advanced, for political reasons, particularly in regard to India, but while the justification for the location of India's Gold Standard Reserve in London is that it is to India's advantage to keep it there, the presence of that gold in London instead of in India might in given circumstances be of immense value in this country.

The memorandum pointed out that India alone had increased its reserves in England from £2.3 millions in 1893 to £35.6 millions by 1912. The actual amounts in London by 1912 were much higher than this figure, when all the colonial currency and other reserves were taken into account.[125]

Conclusion

The evidence in this chapter negates a series of historical explanations of the key policy changes in imperial colonial currency policy. Chalmers was completely wrong in stating (1893: 29–30) that 'faulty as the legislation of 1825 might have been in important details, it was…sound in its essential idea, viz., that sterling was the best system of currency for all British Colonies, irrespective of their geographical position and trade relations'. Nelson (1987:50) was equally wrong in arguing that the purpose of the 1825 policy was to 'encourage the use of sterling throughout the British Empire'. Second, it was also wrong to argue that the imperial authorities believed in the principle of currency areas and would have allowed doubloons or dollars to circulate where they were dominant.

Shannon (1951: 334–37) quite incorrectly concluded that the Treasury did not intend either in 1825 or over 1838–44, to make British silver the sole or main coinage in the colonies, but to give it 'concurrent circulation with whatever other coins there were'.[126] Shannon was also incorrect in all the following: that the authorities chose British silver tokens rather than sovereigns because the latter would have been of too high a value for general circulation; that Britain would be supplying its own currency instead of leaving the colonies to fend on their own; that the colonies were to have a good coin convertible into gold; and lastly, the 1825 policy was simply an attempt by Britain to tidy up the administration of sterling payments to troops in colonies, and to facilitate conversion of sterling into local currencies and vice versa. Shannon (1951: 338,339) incorrectly concluded that the 1825 ratings of the dollar at 4s.4d. and the doubloon at 16 dollars, or 69s.4d., were wrong because the Treasury was still inexpert in currency theory and did not realize that they were bestowing the right of unlimited legal tender on the token shilling.[127]

Hopkins similarly incorrectly argued (1970: 104) that the 1825 change of imperial policy was designed to ensure that the British shilling circulated 'wherever the British drum was heard' and that this 'monetary jingoism' was replaced in 1838 by a more realistic and neutral policy which acknowledged the existence of 'currency areas' and was 'fully in accord with the mid-Victorian view of peaceful penetration; if sterling replaced other currencies, as in some parts of the world it did, well and good, but no direct pressure was exerted to ensure that this happened'.[128]

Nelson (1987: 53) incorrectly wrote that the British Treasury adopted that currency in the colonies which 'preference, custom and trading conditions made most favorable': in some parts of the colonial Empire, British sterling became the standard, although based on an actual circulation of British silver tokens; in India, Ceylon, Uganda and Mauritius, they found their solution to lie in the silver rupee; in yet others like Hong Kong, Singapore and Malaya, they minted silver dollars. While the British silver currency was

seen to be the equivalent of a gold exchange standard currency, the others were acknowledged to be on silver standards.

This chapter has shown that principles of currency, held essential for Britain, were rejected for colonies. Thus, while Britain was herself on a gold standard from at least 1717 to 1914, in her colonies the British authorities eliminated gold standards and circulating gold coins, or international currencies like Spanish dollars, against colonial wishes. Britain also rejected colonial attempts to alleviate their monetary stringency.

Far from enjoying an orderly progressive evolution, colonial currencies suffered monetary regression. Thus the first three Generalized Misconceptions listed in Chapter 1, are all contradicted by the actual historical colonial currency experiences before the twentieth century. Colonies *did* prefer and many did have circulations of gold currency, British and foreign; they did *not* have any specific preference for silver to the *exclusion* of gold, although silver would no doubt have been preferred for small transactions; the authorities paid no heed to colonial preferences for currencies suitable to their 'currency areas'. Thus, gold standards based on Spanish doubloons or silver standards based on the Spanish dollar, which naturally made them part of the Spanish currency area because of their geographical and trading connections, were eliminated from colonies such as the West Indies and Malta against their wishes.

Some imperial monetary experts were aware that imperial objectives would be harmed if colonial currency areas were allowed to continue. Pennington had observed (1848:60) that, if the Spanish dollar and other silver coins had been made the principal measure of property and exchange in the West Indies, 'the establishment of the sterling money of account, and the introduction of the gold and silver coins of the mother country, would have been rendered wholly impracticable'. Chalmers (1893:24) had noted that the Spanish dollar, 'the universal coin of three centuries, had lost its supremacy, and that its dominion was in the process of disintegration into rival "currency areas", chief among which was destined to be the area dominated by sterling'. But it was the deliberate imperial hand in the process that ultimately led to the disintegration of dollar currency areas.

Nor was there any respect for other currency areas, based on other coins. Existing coins with wide currency areas such as the Indian gold pagodas and the earlier rupees, were eliminated and replaced by less fine and less acceptable British silver rupees, from which seigniorage was deducted by the British. In summary, fully international or regionally accepted currencies were replaced by localized currencies.

While Britain's gold sovereign strictly followed Lord Liverpool's dictum that the standard coins should not have any seigniorage taken out, in the colonies, with rare exceptions, the standard coins were always *tokens*, British or colonial, from which a significant seigniorage had been removed by the imperial authorities. This was done for several reasons: firstly, the authorities

would be making a profit out of the issue; secondly, the colonies would not constitute a drain on Britain's gold currency and reserves; thirdly, while the imperial authorities initially guaranteed full convertibility of British silver tokens into British sterling, their expectation was that colonial currency would not return to Britain, or be exported to foreign territories, but would remain in the colonies.

Colonies were also prevented from having a paper currency system modeled on the Bank of England note issue. The imperial authorities had two contrasting attitudes to the issue of paper currency in the early colonies. They were adamantly opposed to colonial *governments* issuing notes except under the most rigid of constraints, claiming that impecunious governments might be tempted to engage in inflationary issues of paper currency, thereby undermining all contracts and the currency itself. But they were not averse to private banks issuing notes, with relatively weaker requirements.

We have seen that changes in colonial currency policy occurred around the same times as major sterling reserves crises: the 1799 decision by the East India Company to replace gold pagodas by silver rupees; the 1806 decision to switch India from bimetallism to a monometallic silver standard; the attempts between 1820 and 1822 to coin and circulate special silver 'anchor' coins for Mauritius and the West Indies, replacing international gold and silver currencies (Chalmers: 22–23); the 1825 decision to impose British silver tokens onto other parts of the British Empire; and the eventual achievement of the 1825 objectives through the policies of 1838–44. The recommendations of the Mowatt Memorandum are echoed in the next three chapters.

The Blackett Memorandum made clear that by 2014 the imperial authorities had fully recognized and appreciated the immense benefits of holding colonial currency and other reserves in London, to be freely used by the Bank of England to bolster sterling. Becoming more important as the decades went by, they could also be used for the British Government to draw upon, without going to the London money market, if urgent need arose, as it did quite frequently in the various reserves crises between 1890 and 1914. These colonial currency reserves also thereby reduced the British Treasury's dependence on the Bank of England and other private banks, that usually held British government securities.

The British Government, through the Secretary of State for Colonies and the Secretary of State for India, had effectively become the managers of a 'grand colonial savings bank', which brought together a massive amount of colonial savings, from which they could borrow at reduced interest rates determined by themselves, the borrowers.

4
India, 1893–1914: Conflicts and Resolution

Introduction

Given the economic importance of India in Britain's empire, it is surprising that few writers[1] have connected developments in India's currency system before 1912 to the currency board system imposed on West Africa and other colonies. Chandavarkar (1984:774) was intrigued that India 'altogether escaped from the thrall of the all-pervading British colonial currency board standard with its 100 percent currency reserves'. This chapter establishes that on the contrary, key elements of the currency board system were based on the imperial usefulness of similar elements that Britain developed in India.

Unlike the typical underdeveloped small colonial economy which is often used by imperial apologists to justify the lack of a developed monetary system, India had a large economy, a vibrant indigenous entrepreneurial class – as well as British commercial interests knowledgeable about currency and monetary issues, ample avenues for profitable public and private investment, a large and unsatisfied market for government securities, a knowledgeable professional cadre of civil servants, both British and Indian, and a knowledgeable public which gave informed opinions to several official committees of inquiry into Indian currency.

The previous chapter showed that in India, as in other colonies, the imperial authorities endeavored to replace gold currencies with silver, despite the latter's continued depreciation following the international demonetization of silver after 1871, and severe dislocations to the public finance of the Government of India.[2] Before 1893, any member of the Indian public had the legal right to convert their non-monetary silver savings into currency at the mint. After 1893, only those possessing sterling or gold could receive rupees and the Indian currency supply effectively became the same as the currency board system. The massive savings of the Indian population in the form of melted down rupees was demonetized at a stroke. The ability to

increase the currency and money supply was shifted from the local economy to largely external interests with access to sterling.

This chapter first outlines the paper currency system existing in India before 1898, then the Report and recommendations of the 1898 Fowler Committee. There is then presented the official explanation of the creation of the Gold Standard and Paper Currency Reserves, as reported by the 1913 Chamberlain Commission (which included the young John Maynard Keynes) which had been charged with inquiring into the appropriateness of the Indian currency system to the Indian economy, the optimal size, composition and distribution of currency reserves between India and London; the distribution and disposition of Government cash balances between India and London; the rupee sterling exchange rate, and the need for central banks or a monetary authority in India, all issues to be debated about the currency board system.

The internal correspondence between London and the Government of India is used to show that the official explanations for currency policy had little to do with Indian currency needs and more with London's desperate need for adequate gold reserves. This chapter outlines the comprehensive public criticisms of imperial currency and monetary policy as well as devoting a special section to Keynes' disjointed and muted criticisms, mixed with a few perceptive comments.

India's paper currency system to 1898

Before 1861, the banks took very little advantage of their power to issue notes.[3] The Indian banking system was in three tiers, with the top two tiers British owned[4] or controlled. At the top were the three Presidency Banks who had a monopoly of government banking business and deposits. At the second level were the 'Exchange' banks who conducted India's foreign exchange dealings as well as internal financing. At the bottom were the other Indian banks. By the middle of the century, the large export led growth in the Indian economy led to a severe shortage of currency, even resulting in gold ingots being circulated as currency. To counter the Indian demands for the monetization of gold currency, the authorities started a government paper currency.

The initial proposal by Treasury expert James Wilson, then a member of the Indian Finance Committee, had recommended that the notes should not be based on gold, as were the Bank of England notes, but on silver.[5] Instead of the Bank of England's system of fixed fiduciary issue with the remainder backed by gold, India was to have a proportionate system supposedly more elastic and responsive to demand. The notes were to be backed only one-third by silver bullion, with two-thirds representing the normal local circulation (the 'hard core' later debated in the currency board system) being

backed by Indian Government rupee securities. This note-issuing authority would have been independent of Government.

Wilson's proposals were not adopted. Instead, the authorities created in 1861 a system with some superficial features of the English system and the 1844 Bank Charter Act. A Department of Paper Currency was created with the power to issue notes on receipt of silver rupees, British or foreign gold coins, or gold bullion, which were to be maintained as reserves, except for a fixed amount which could be invested in Government securities. The notes were redeemable into silver only, not gold. Instead of the large amount of fiduciary paper currency expected by Wilson, this portion was limited to a mere £4 millions in 1861, with the limit slowly rising to £10 millions in 1896. Discretionary expansions were not allowed.

The actual note issue in the three decades 1860 to 1890 rose from roughly £8 millions to £12 millions to £16 millions and the fiduciary portion backed by rupee securities in the three decades averaged 37%, 49% and 39% (Ambedkar: 52). Significantly, while some £330 millions of silver rupees were coined between 1835 and 1891, there was estimated to be only about £115 millions of rupees in active circulation by the latter date.[6] As much as two thirds of the silver rupees coined may have been converted into bullion and jewelry, entailing the possessors in considerable loss after the 1871 demonetization and depreciation of silver, totally undermining the store of value function of money. The paper currency was less than 10% of the total currency in circulation by the end of the nineteenth century.

The paper currency system was not a success largely because of restrictions by the Government of India. While the 1861 paper currency laws allowed the three Presidency Banks to be the Government's agents for the issue and redemption of the notes with a commission, the banks refused to facilitate the notes because they made a greater profit by charging exchange for the internal transmission of funds.[7] More importantly, the regulations of the Government itself constrained the circulation of notes. First, they refused to allow denominations low enough to be useful in everyday exchange transactions. Second, they divided India into a complex system of 'circles and subcircles of issue' with notes not being cashable other than in the issuing circles and offices (Ambedkar: 53–54). The official justification for this unusual constraint was that the Government might be required to move coin around the various centers to balance net movements of notes. The greater national advantage of notes as a facilitator of exchange throughout the economy was eliminated on the narrow grounds of minor costs to the government.

The bank credit system was equally constrained. The three Presidency Banks, who were the preferential receivers of local Government deposits were banned from borrowing or receiving deposits payable outside of India; forbidden to lend for more than six months; forbidden to lend on mortgages, on security of immovable property, on promissory notes bearing less than two independent names, or on goods unless their titles were deposited

with the bank. With an undeveloped cheque banking system, the banks were naturally forced to maintain higher cash reserves.

The natural result was that the Indian money market felt periodic monetary stringency more devastating than that in the London or any other money market: between 1876 and 1883, the rate of discount rose between 4.5% and over 10% more than a hundred times (Ambedkar: 58). Yet the idle cash balances maintained in the Indian treasuries by the Government of India were usually greater than the maximum combined cash balances of the Presidency Banks, with the balance usually peaking when the rate of discount was highest.[8]

Following the 1893 closure of the Indian Mints to silver, the rupee's exchange value was raised to 16d. – the target rate for the authorities. With soaring interest rates and aided by a famine, Indian gold began to be dishoarded and tendered for the rupees needed for purely internal circulation. The 1898 Fowler Committee was then appointed to make recommendations for the future policy on Indian currency.

The India Fowler Committee, 1898

The 1898 Fowler Committee, which had common members with currency committees for the Straits and West Africa,[9] considered two schemes, one associated with Alexander Lindsay[10] not requiring a gold circulation in India, and another (associated with Lesley Probyn) which did. The Committee rejected Lindsay's scheme stating that India should not permanently be denied a gold circulation.[11] They saw no practical problem posed by the supposed 'gold hoarding' instincts of India and recommended making the sovereign a legal tender and current coin in India, with the Indian Mints being thrown open to the free coinage of gold like the three Australian branches of the Royal Mint.[12]

The Fowler Committee recommended that any seigniorage profits derived through the coining of rupees[13] should be accumulated in a Gold Standard Reserve kept 'entirely apart from the Paper Currency Reserve and the ordinary Treasury balances'.[14] Ignoring the British system and contradicting Chandavarkar's view that by 1898 the 'widespread feeling' was for 'a full-fledged gold standard' in India, the Fowler Report stated that as in United States and France, the Government should not 'be bound by law to part with its gold in exchange for merely internal purposes'. They regarded it 'as the principal use of a gold reserve that it should be freely available for foreign remittances' whenever the exchange fell below specie point at which gold would be exported from India in settlement of debts.[15] While they recommended a par value of 16 pence for the rupee, a minority opinion wanted a lower value, closer to that of bullion and also helpful for Indian exports. The Fowler Report and its majority recommendations were accepted by the authorities.

However, the Fowler Committee's proposals for an Indian gold mint and gold circulation were soon abandoned 'on account of the British Treasury' (Chandavarkar: 771). De Cecco (1974:68–70) argued that, while the authorities' original support of a gold circulation may have been initiated by fears that the massive new supplies of Rand gold might once more lead to a depreciation of gold, these fears were reversed once London suffered severe losses of gold reserves following the Boer War.

Although the post-1893 Indian rupee had been likened by the Fowler Commission and Keynes to the United States dollar or the French franc, which were full legal tender silver coins within gold standards, Ambedkar has argued that the latter were fundamentally different in being subjected to fixed limits of issue unlike the Indian rupee circulation which could be expanded by the authorities. Thus, while the rupee was virtually an inconvertible note printed on a more costly material,[16] it was not a gold standard currency even if the authorities claimed to monetize gold. Effectively, the authorities had created Lindsay's gold exchange standard which had been explicitly rejected by the Fowler Committee and previously also by the Government of India.

Stated policies on Paper Currency Reserves, Gold Standard Reserves and Government cash balances

The official explanations of the origins of the paper currency reserve and gold standard reserve, and the policies on disposition of government cash balances between India and London, were attached as Appendices to the Chamberlain Report (1914), in the form of memoranda by Lionel Abraham (later Sir) and F. W. Newmarch (Financial Secretary).[17] They were probably written to counter the criticisms of imperial policies on Indian currency and reserves. Nevertheless, scattered sentences indicate guarded but significant internal unease with imperial policies. Also appended to the Chamberlain Commission Report was correspondence between London and India, indicating many internal conflicts, whose eventual resolution was explicitly in the interests of London, by building up London gold reserves, under the control of the Secretary of State for India.

The Paper Currency Reserve

India's currency reserves were artificially differentiated between a 'Paper Currency Reserve' and a 'Gold Standard Reserve'. The Paper Currency Reserve was to be held in India to redeem the notes in India. From 1898, a major change in policy allowed rupee notes to be issued against gold tendered to the Secretary of State in London, to be placed in the Indian Currency Reserve at the Bank of England. While the Act 'was intended as a temporary measure to meet exceptional conditions', its 'utility' was soon recognized and the Act extended. From 1900, the Secretary of State was also empowered

to use the gold in the reserve to purchase silver bullion for sending to India for currency purposes. From then on, while notes could also have been legally issued by tendering gold in India, the only methods practically used were the tendering of gold in Britain, or using gold in London to purchase silver to back rupee notes.

The authorities then supposedly recognized that the Paper Currency Reserve in London could also be used to support exchange when the balance of trade was unfavorable. They then concluded that the reserves in India 'appeared to form a disproportionately large component of the reserve, while the silver portion was somewhat low (less than one third of the whole)'. Five million pounds were then shipped to Britain and it was 'decided to aim at holding not less than that amount normally, in London'.

Another policy change took place in 1905 when an Act not only increased the securities portion of the reserve to 120 million rupees, but also stipulated that they could include sterling securities, initially limited to 20 million rupees.[18] In 1911 the securities portion was increased to 140 million rupees, and the limit for the sterling securities also increased to 40 million rupees. The increases after 1905 were fully invested in British sterling securities.

The Gold Standard Reserve

The 1898 Fowler Committee had intended that the Gold Standard Reserve, which was to be created from the seigniorage profit on the coinage of rupees, should be kept in gold 'entirely apart from the Paper Currency Reserve and the ordinary Treasury balances' and used to maintain the gold value of the Indian rupee. However, supposedly following 'a general consensus of opinion' amongst the authorities, it was decided that the Gold Standard Reserve, in so far as it was held to prevent a fall in exchange, could be used for two other purposes: to supplement temporarily the resources in London of the Secretary of State at times when he was unable to sell Council Bills[19] except below specie exporting point;[20] and to serve as a fund for enabling an adverse balance of trade to be liquidated without a fall in exchange.

The authorities then decided that the Gold Standard Reserve had to be held as gold, sterling securities, bank deposits or money lent at short notice in London with the argument that 'even allowing for the depreciation of securities, the profit [was] very large'. The Abraham Memorandum argued against holding any portion of the gold reserves in India: firstly, there would be double transportation costs and delays since the gold would have eventually to be sent to London for disposal; secondly, gold in India would not earn any interest; and thirdly, because of the Indian habit of hoarding and turning gold into ornaments, gold in India would become unavailable for export.[21]

Following the two disastrous famines of 1907–08 (when £18 millions were supposedly needed to support exchange), the Secretary of State decided in 1912 that the Gold Standard Reserve would be increased and 'no part

used for any other purpose, such as capital expenditures on railways' until the London Branch of the Reserve reached £25 millions. The Abrahams Memorandum guardedly pointed out that, even if the London Branch of the Gold Standard Reserve were the only resource for meeting a fall in exchange, the existing regulations did not err 'on the side of rashness'. Abrahams was aware of the enormous development costs of tying up such large sums in London, comparing them to the equivalent investments in Indian irrigation and railway works,[22] whose direct commercial returns alone, were far more than investments in London.[23] The Abrahams Memorandum defensively noted that the appropriation for the maintenance of exchange, of a sum representing 'so vast a potentiality of financial, economic, and protective advantage to India [was] probably not excessive'.

These subtle guarded statements by imperial civil servants are clearly symptoms of a deep unease that Indian national interests were not being served by the imperial policies and Chandavarkar noted (1984:774) that Sir Lionel Abrahams had reproved Keynes for not considering the use of the currency seigniorage profits for public works in India. The enormous opportunity cost to Indian may be gauged from the simple but stark statistic that 'between 1875 and 1914, some thirteen to sixteen million Indians died from famines.'[24]

Government Cash Balances

Imperial policies on government cash balances were subject to the same pressures as currency reserves, both drawing criticisms in India. The Abrahams Memorandum in the Chamberlain Report on government cash balances[25] claimed that in 1913, the cash balances in London and India were in proportion to the expenditures, and not excessively held in London as claimed by Indian critics;[26] that the Secretary of State did not sell more Council Bills than was necessary for his funds in London;[27] and that free sales of Council Bills and Telegraphic Transfers had been necessary to prevent gold from going to India.

The Abrahams Memorandum tenuously argued that it was in India's interest, such as for the renewal of railway debentures, that discount rates in London be not raised by the withdrawal of Indian gold from London. The authorities were not concerned at the massive rises in discount rates in India. The authorities argued that it was better to lend out Indian government cash balances in the London money market for interest rather than leave them without interest at the Bank of England which would be logical of course, once it was decided to hold the reserves in London in the first place, rather than in India. But it was simultaneously argued that the need for sudden large payments meant that the loans had to be short term.[28] The Abrahams Memorandum also claimed that the authorities had not received complaints from banks in India and that they had received no request for loans in the six years previous to 1913, all contrary to the evidence below.[29]

Keynes claimed to be 'puzzled' that India kept renewing railway debentures when she had no need to (see below).

Internal imperial conflicts, 1898–1912

While the official explanations for currency and monetary policy changes in India gave the impression of progressive rational evolution and adaptation, the internal correspondence[30] indicates significant policy conflicts between London and Finance officials in India.

Conflict over government cash balances

In 1899, the Bengal Chamber of Commerce had complained that despite discount rates higher than 10%, borrowers were not able to obtain loans on government securities as collateral. They accused the authorities of worsening the stringency by holding India's cash reserves in London and keeping more than 85% of its Indian cash balances idly locked up in the Government Treasuries, while a lower proportion was held at the Presidency Banks during the busiest season. A Memorial from the Exchange Banks of Calcutta made the serious allegation that monetary stringency in India such as in 1900 was 'directly attributable to the action of the Secretary of State'.[31] The Exchange Banks, the Accountant General of Madras and the Government of Bombay all complained that the authorities worsened the situation by not allowing the Presidency banks access to the London money markets, despite the holding of Government of India securities as collateral. They all requested that the surplus and idle government cash balances be made available to the banks in India.

The Government of India supported the banks' criticisms,[32] pointing to the damaging impact on the government's credit rating if Government Paper ceased to be a loanable security and agreed with the bank's recommendation that the government could easily spare 15 million rupees, which could be lent at 1% less than the Indian Bank Rate.[33] These mild proposals were rejected by the Secretary of State, who reminded India that the principal objective to be aimed at, in the management of the Indian Government cash balances, was their remittance to England at a favorable rate of exchange.[34] The Secretary of State warned that 'the postponement of a portion of the Government remittances might stimulate imports on private account; and it might be very likely found that, when the time arrived for calling in the money due to you, the balance of trade had been to some extent adjusted and that there was no such necessity for remittances'. London authorities clearly feared that any extension of credit by the Indian Government would increase imports, and reduce reserves in London. This early imperial awareness of the powerful relationship – credit creation by the banking system would inevitably reduce reserves – was pointed out by Polak (1957).

The Presidency Banks of Bengal and Madras had also tried in 1899 to obtain loans from the Paper Currency Reserve on Government securities as collateral. The Secretary of State rejected the proposals claiming that if the[35] 'proportion were large enough to admit of loans being made therefrom, then it would be unnecessarily large, and the general tax-payer, not any particular section of the community like the Banks, should benefit by the substitution of the securities for coin'. Even the Abrahams Memorandum to the Chamberlain Commission admitted that these objections were 'very unconvincing' since the Paper Currency Reserve had long been in excess of what was needed to ensure convertibility, and 'quite large enough to enable loans to be granted to the Presidency Banks without inconvenience to the Government'.

The 1900 Law Memorandum attempt to increase reserves in London

In 1900, the London authorities were sent the Law Memorandum proposing the establishment of a special Gold Standard Reserve.[36] The Memorandum explained that the proposed Gold Standard Reserve would receive all the seigniorage profits from the coinage of silver and would be kept separate from the Paper Currency Reserve and the ordinary Treasury balances of the Government of India. In addition, not only would it receive the interest from the Paper Currency Reserve but any excess in the latter over £7 millions was to be used to purchase silver for coinage, whose profits would go into the Gold Standard Reserve. Thus effectively, a part of the Paper Currency Reserve was to be converted into a Gold Standard Reserve.

This might be puzzling, since soon after the Secretary of State was using the Gold Standard and the Paper Currency Reserves as part of his ordinary balances. However, the imperial authorities were in the position of trying to justify why an additional reserve was necessary when they already had a large Paper Currency Reserve as well as substantial Government cash balances. They also had the problem of justifying changing Indian Government rupee securities into sterling securities. A new 'Gold Standard Reserve', held completely in London, could enable them to hold sterling securities from the beginning.

The Memorandum observed that because of the famine in India, the gold component of the Paper Currency Reserve had increased significantly. While the Government had also begun to issue sovereigns in exchange for rupees, the despatch explained that this was not in the expectation of issuing all their gold reserves, but in the Machiavellian hope that it 'would hasten the time when it will pass into general circulation in considerable quantities'. The memorandum however warned that rupees ought to be redeemable into gold for the legitimate purposes of trade and that unless this demand was promptly met, an undesirable fall in exchange would result. The Law Memorandum surprisingly recommended that the existing 100 millions of Government of India rupee securities in the Paper Currency Reserve should

be converted to sterling securities; and that while the invested portion of the Paper Currency Reserves was to be increased from 100 million rupees to 150 million rupees, the additional investments were to be all made in British Consols.[37]

The Viceroy objected to the plan to transfer investments from Indian rupee securities to sterling securities pointing out that their investments in rupee paper were 'very useful, and easily convertible into rupees' even when there had been a great demand for the encashment of currency notes. He also objected to the investment of their sterling reserves in British government Consols. The Secretary of State however insisted that the decision on which securities to invest in (whether Consols, India Stock or any other) should be left to his discretion. He also stipulated that from then on, the coinage profits must be rigidly accumulated into the Gold Standard Reserve and not used for famine or other purposes, as previously. While unable to implement the conversion of rupee securities into sterling (apparently because it required fresh legislation), he approved the other proposals.[38]

Within a year, India became critical of the investment policy followed by the Secretary of State and asked again that their currency reserves be invested not in Consols but their own India Government stock or even County Council stock which earned higher returns.[39] They argued that not only would this lead to a faster growth of the Gold Standard Reserve but also relieve the London market of India stock and strengthen Indian credit. They pointed out that investment in their own stock would not be unsafe or likely to lead to serious loss on realization.

The Secretary of State rejected India's proposals and claimed that they had to guard against 'any emergency, either economic or political' when both India's credit and exchange might be depreciated leading to a loss on the sale of India stock.[40] Evidently aware of the lobby groups behind the Secretary of State for India, the Government of India futilely complained that the London authorities were consulting advisers who seemed to have interests other than the most important ones of security of the reserve and convertibility of the note issue.[41] In 1905 and again in 1911, legislation was passed to allow further investments of the Paper Currency Reserve in sterling securities, mostly of the British Government.

While this policy change was taking place, it was clear that there existed a buoyant demand by both British and Indian investors, for rupee paper. The Bank of Bengal had pointed out that all the rupee loans issued in India were being taken up, and more so by Indians. It had hoped for 'further rupee loans ... and that prices will be such as to induce Native investors to increase their holdings'.[42] In 1911, when the sterling proportion was again increased, all three Presidency Banks and the Chambers of Commerce of Bombay, Madras and Karachi, were urging that further investments of Indian reserves should be in rupee paper, but to no avail.[43]

The blurring of reserves policies, 1905–07

In 1905, the Secretary of State alleged that because the Paper Currency Reserves in India were 'excessive'[44] and because the reserve of silver coins had fallen to below a third of the total circulation of rupee notes, India should remit the excess gold to London, to be held as part of the Paper Currency Reserve at the Bank of England or for the purchase of silver for future requirements.[45] He argued that this stock of gold in England would also be useful for replenishing his ordinary balances in London against a corresponding transfer of silver rupees from the Government of India cash balances to the Paper Currency Reserve in India. Not only would this have contradicted the Law Memorandum recommendation that the currency reserves be kept separate from the ordinary balances of the Government of India, but the proposal would also have allowed the London authorities to withdraw gold from the currency reserves in London by placing inconvertible silver in the reserves in India.

The gold was duly sent off, although the Government of India complained that it saw no reason for maintaining a third of the paper currency reserves in silver coins. Soon after the shipments began, the London authorities were forced to instruct India to announce that the shipments were on behalf of the Paper Currency Reserve and not for the purposes of replenishing the balances of the Secretary of State. Apparently, news that gold was coming from India had led to firms on the 'borrowing list' either declining to renew loans in the expectation of cheaper money, or making the news the pretext for offering a lower rate of interest. Far from offering the best terms to the colonial funds, the preferred borrowers in London were dictating inferior terms from what seemed to be unofficial cartels.

At the end of 1905, India urgently requested that, because of their need to have funds in the Indian Treasury, they wished the Secretary of State to transfer half a million pounds sterling from his balances in London to the Paper Currency Reserve in London, the converse of what the Secretary of State had just been doing.[46] The Secretary of State refused, claiming that it was undesirable to transfer even that small amount from the Bank of England. The Government of India futilely complained that they were being forced to completely run down their bullion reserves in India and even had to borrow from a local prince, endangering the Secretary of State's own large drawings of telegraphic transfers.[47]

In 1906, a new Viceroy, while approving London's currency policies, thought that the London gold in the Paper Currency Reserve could be used up in purchasing silver for coining into rupees.[48] Although this had been part of the original imperial justification for moving the gold in the Paper Currency Reserve to London, the Secretary of State rejected this proposal stating that gold possessed by him should not be completely depleted given that it was 'of considerable advantage to India in helping to maintain

confidence in the permanence of the gold standard and in the stability of the exchange value of the rupee'.[49] But, as Keynes pointed out, even this last function would not be fulfilled.

Towards the end of 1906 the Government of India agreed, within limits, to a request by the Secretary of State that he wished to sell Telegraphic Transfers freely in London.[50] The London authorities, wanting to raise sterling in London but not wishing to place the proceeds in the Paper Currency Reserve as they should have, rejected the limits and instructed the Government of India to borrow from the silver portion of the Gold Standard Reserve in India to supplement their balances. This was rejected by India who warned that there was extreme monetary stringency in the Indian Money market with the possibility of a serious panic.[51] London feebly argued that withdrawal of the Indian gold from the London market into the earmarked Indian Currency Reserve would reduce the reserves of the Bank of England and, by its effect on discount rates in London, interfere with arrangements for renewing Indian debentures of Guaranteed Railways maturing in December.[52] The Indian Government acceded under protest.

By early 1907, the Secretary of State was still refusing to transfer Indian Government balances to the Currency Reserve, now claiming that they were earning him 4.5% interest. India pointed out the lack of logic in London's position: the Indian exchange was not under threat, the supply of rupees in India was sufficient, both their balances were adequate for the purposes of Treasury, there was no crisis to justify the continued loan of all the silver from the Gold Standard Reserve, nor could the small gain in interest to the Secretary of State 'compensate for using the Reserve in a manner foreign to its avowed object'.[53] The Secretary of State was informed that his policy arose 'only from the tightness of money in the London market' and from his apprehension of difficulty in renewing the guaranteed Indian railway debentures. India saw no substance in London's explanation for their actions.

They further pointed out the contradiction in refusing to use the earmarked[54] London part of the Paper Currency Reserve for the very purpose they had claimed to create it for, while unhesitatingly using it for the London money market. They complained that the transfer of earmarked gold in London to the Secretary of State's ordinary balances was originally meant to be subsidiary to its uses for currency purposes. The Gold Standard Reserve was solely for the purpose of maintaining exchange and they regretted London's sale of the Reserve's securities to enable the Secretary of State to recoup his Treasury balances.

Against this barrage of complaints, the Secretary of State reiterated his explanation about the 'severe stringency' in the London Money market[55] claimed that London's currency policies had been decided 'in the light of experience' and again rejected India's recommendation that loans should not be taken from the Gold Standard Reserve. He insisted that the 'choice

between "earmarking" gold and borrowing from the Gold Standard Reserve must in each case depend on the circumstances of the time'.

Despite the imperial justification for the establishment of the separate paper currency and gold standard reserves in London, actual imperial practice, as enforced, implied that support of Indian currency was not the primary consideration for the authorities.

Renewed disagreements over the location and size of reserves

In 1909 the London authorities began to accelerate the accumulation of total currency reserves and increase the proportion held in London. While the initiative seemed to come from India, other colonies were being subject to similar pressures from London authorities around the same time. The Government of India informed London that, having seen the loss of £15 millions in gold reserves during the 1907–08 famine, they now realized that the stability of currency was more important for India than the development of railways: they wished to increase their currency reserves.[56] They observed that, while the Indian Government under Curzon had originally intended the gold standard reserves to be kept in liquid form in India, and while Indian opinion supported this, the Secretary of State had decided to invest them in London and they did not wish to revive this debate. However, because of the severe depreciation of their investments in sterling securities, the Government of India wished their reserves to be liquid.

The Secretary of State willingly co-operated by pointing out[57] that, while Lord Curzon in 1904 had suggested £10 millions as the desired level of reserves and Law in 1905 had suggested a figure of £20 millions, a 1907 Committee on Railway Finance and Administration had suggested £25 millions. Apparently unconcerned that an excessive accumulation would be wasteful in locking up of funds which might be used for very profitable infrastructure development of India or for famine relief, the Secretary of State informed that the 'prudent and economical course' would be to regard £25 millions as the minimum amount which should be accumulated in the form of sterling assets of the Gold Standard Reserve and gold held in the Paper Currency Department! Paradoxically, the Secretary of State also gave information in the same despatch that in the worst crisis of 1907–08, the loss of gold reserves had not been £15 millions, as the Government of India had claimed, but only £11 millions, or less than a half of the currency reserves they were now proposing.

Surprisingly (and a anomalous reversal of imperial policy direction deserving of further research) the Government of India then did an about turn,[58] now arguing that with possible gold and liquid holdings of £40 millions, two-thirds of this sum should be held in India, which should also be encouraged to have an active circulation of gold sovereigns, as recommended by the Fowler Report. Not only could superfluous gold currency be exported in a crisis, but holding the gold reserves in India would enable

them to restore public confidence by free issues of gold – of vital importance in the early stages of a panic. These sensible proposals were immediately rejected by the Secretary of State[59] claiming it 'might cause the periodical recurrence of stringency in the London money market' which might harm Indian loans or trade.

In these conflicts, Indian currency reserves were used to support liquidity in London, at the expense of liquidity in India: reserves from the Paper Currency Reserve were arbitrarily moved to London; gold in the reserves was unnecessarily squandered to purchase non-monetary silver bullion which was also wastefully required to be maintained at a third of the note issue; India's currency reserves were arbitrarily mingled with ordinary cash balances of the Government of India, contrary to the original principle; sterling funds were unnecessarily raised in London at India's expense; and even though severe monetary stringency and economic crises in India required a withdrawal of Indian funds from London, this was refused, because it would have created stringency in London.

Resolution through the 1912 cosmetic 'consensus'

The disagreements between London and the Government of India were brought to an end following the appointment of a new Viceroy, who in 1912 oddly responded to a 1910 Despatch from the Secretary of State advocating the political need for imperial consensus.[60] While pointing out that the currency problems of December 1906, and the unnecessary purchase of large amounts of silver, had been caused by the refusal of the Secretary of State to earmark the necessary gold, the new Viceroy stated that the Government of India was now anxious to eliminate differences of opinion on minor or unessential issues so as to be in a position 'to defend with conviction the whole range of our currency policy against the attacks and criticisms which we frequently have to answer in our Legislative Council and elsewhere'.

Not only did they now accept the views of the Secretary of State on the 'comparative utility' of their gold reserves held in England and India, but asserted that £25 millions of gold in the Gold Standard and Paper Currency Reserve combined fell far short of what they believed to be desirable. They claimed that a minimum of £25 millions for the Gold Standard Reserve by itself would be advisable, moderate and practicable.[61]

The Government of India clearly anticipating public criticisms, defensively claimed that their proposal 'would not divert funds from the industrial development of India or have an unfavorable effect on the Indian trade balance' since the reserves would be used either in loans to the London market or in the purchase of securities and hence could not be described as 'locked up'. The Secretary of State agreed on the need for caution in currency matters and stated that they should pursue a course which would strengthen general confidence and 'secure unanimity among the authorities'.

The authorities in India and London closed ranks, for the political expediency of meeting public criticisms and just before the Chamberlain Commission of Inquiry.

Indian Public Criticisms

Cogent public criticism in India, both from commercially important Indian nationals and British commercial interests pointed out to the Chamberlain Commission most of the anomalies in the imperial policies on the Gold Standard Reserve, Paper Currency Reserve and Government cash balances.[62]

The critics argued for greater investment in Indian rupee securities, since this would have relieved the severe periodic monetary stringency in the Indian money market, aided Indian economic development, and would have been much more profitable than sterling securities, which had suffered severe depreciation and been unloaded by London financiers.

They criticized the lending of large amounts of Indian funds, often without security and on extremely concessionary terms to a select group of firms in the London Money Market.[63] They pointed out the inherent conflict of interest in that some of the banks had directors who at some time or other had also been members of the Finance Committee of the India Office.[64] They pointed out that large short-term deposits kept getting renewed indefinitely, and were enjoyed by a mere ten of the preferential borrowers who had more than £12 millions perpetually renewed on short term deposits.

They pointed out that Indian funds in London on aggregate earned just over a half of the interest earned by the securities deposited as collateral for loans of Indian funds,[65] while India kept borrowing from London at much higher interest rates, effectively borrowing from themselves at extra cost through the same London financiers who made the profit effectively as 'middlemen'.

The critics complained that Indian gold held in London had 'no mission to perform there save to underpin the weak gold foundations of the English joint-stock banks' thus reducing 'the anxiety of the banks to keep their reserves at safety figures'.[66] They warned that, should there be political trouble, war or a commercial crisis in England itself, there would be great difficulty selling securities and transporting gold to India. More importantly, because Indian gold formed a significant component of Britain's notoriously slender gold reserves, in any exchange crisis whether in India or in London, large withdrawals which would upset the London Money market, would not be tolerated by both London's financiers and the British Government. Echoing Blackett's Memorandum, it was pointed out that, even if the whole sum was 'earmarked in gold at the Bank of England, there [was] no doubt that at moment of grave national danger, Government would at once appropriate India's gold in London, and India would be left in the lurch'[67].

Keynes' muted criticisms and disjointed rationalizations

The views of the eminent John Maynard Keynes on Indian currency and money have to be of the greatest interest to economists and readers in general. While some of his observations on Indian currency and money were undoubtedly perceptive, his criticisms were muted, disjointed and contradictory.

Keynes had started his career as a clerk in the India Office, where his superiors frequently called upon him for advice. His first book was on Indian currency and finance (Keynes 1913). Keynes wrote a review of the West African Currency Board system soon after it was established. He was also a member of the 1914 Royal Chamberlain Commission of Inquiry.

The paper currency system

Keynes noted that the paper currency scheme ultimately implemented in India was different from the one envisaged by Wilson, and strangely rationalized that Wilson's death before his scheme could be implemented led to a different scheme being implemented.[68] Keynes argued that the system which came into being was influenced by the rigid ideas of the 1844 Bank Act in England by which the amount of notes issued on Government securities should be maintained at a fixed sum 'within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions of the country, and that any further amount of notes should be issued on coin or bullion'.[69]

Keynes' analogy was incorrect. First, while India was supposed to be on a gold exchange standard, the rupee paper was legally convertible only into silver, not gold. Second, after 1900, Britain forced the increments to the paper currency reserves to be backed by sterling rather than Indian securities as the Government of Indian wanted. Third, while the Bank of England notes were legal tender throughout England, the rupee notes in India were legal tender only within their respective 'circles of issue' and were thus actively discouraged from becoming a national currency.[70]

The Indian rupee notes were associated with an inelastic monetary system. Keynes himself observed that while in England the reserve restrictions of the 1844 Bank Charter Act had been 'magnificently' circumvented by bankers developing the cheque/deposit system, in India, there was 'no method whatever' by which the volume of currency could be temporarily expanded by some credit device to meet the seasonal demands of trade.[71] He asked with apparent surprise 'What would be thought in France or Germany, or in any other European country, if an expansion of the note issue could not be made against the discount of home bills, but only against a corresponding deposit in cash per cent? Yet this is the position in India.'[72]

While Keynes saw this last weakness as explaining the periodic high rates of discount in the Indian money market, he still recommended that

'permanent additions to the currency must be obtained in the future as they are at present'.[73] The same undesirable feature would be continued in the West African Currency Board system, which Keynes reviewed the same year (1913b).

Keynes was critical of the imperial management of the Paper Currency Reserve. First, he pointed out that while the reserve was used by the authorities to provide gold to support exchange, it was superfluous for that purpose. He concluded that the whole of its liquid portion could be lent in India 'without endangering in the least the stability of its system, to the great advantage of Indian trade'.[74] Yet the authorities had specifically moved Paper Currency Reserves from India to London, and were absolutely opposed to currency reserves being lent out in India. Table 3b (Appendix) shows how Indian rupee securities, as a proportion of total Paper Currency Reserves, generally declined between 1897 and 1913.

Keynes was critical of the Government of India's policy of coining for the Paper Currency Reserve. He complained that, at the end of 1906, when their bullion reserves were almost exhausted, they not only had to hurriedly buy silver in London at inflated prices, but, 'having started on a career of furious coinage, they continued to do so with little regard to considerations of monetary prudence', as if a community consumed currency in the same way they consumed beer.[75] Keynes did not link this irrational policy to the authorities' wish to maintain liquidity in the London money market.

Keynes also pointed out the national cost in spending resources to create essentially a silver token, when the silver in it could not be used in support of the Gold Exchange Standard. Keynes attributed this wasteful use of silver rupees to the 'custom of the people',[76] although the evidence above shows that this was entirely the result of imperial policy to deny India a gold currency and use up silver bought from London.

Gold Standard Reserve Policies

On the question of gold reserves, Keynes advised that India should be compared not to the British monetary system but the European systems, because none of them had gold as a principal medium of exchange or could use the discount rate to stop an outward drain of gold. Thus like these European countries, Keynes argued that India had to have large gold reserves, suspension of free gold payments and the keeping of foreign credits and bills, to ensure adequate gold reserves.[77] Yet when referring to the massive build-up of Indian sterling balances, Keynes surprisingly complained that it had not 'ever been thought out quite clearly for what precise purpose these reserves [were] held'.[78]

Keynes argued that, if the sterling reserves were being held purely to support the currency, then the amount of reserves should be determined by the maximum amount which could be withdrawn from circulation. The reserves should be able to meet the maximum amount of adverse balance

of payments, purely internal crises, purely external crises, or some mixture of all three.[79] Using the crises of early 1906 and 1907–08, Keynes concluded that £40 millions would be a proper limit for the Gold Standard Reserve and the sterling portion of the Paper Currency Reserve.

But even this was almost certainly a gross overestimate. Our previous section has shown that in the 1907–08 crisis, the Secretary of State had acknowledged that only £11 millions sterling had been needed and in fact the Indian currency had only contracted by about 5%. Moreover, this crisis had been the only instance for 20 years in which India had come close to a balance of payments deficit. Keynes himself advised that it would be extravagant to maintain a reserve adequate for all contingencies, since resort could always be had to the London Money market, and the cost of so doing would be less than that of maintaining their own reserves. Keynes' assessment of £40 millions as the minimum requirement also ignored his own calculation that in 1912, India had actually accumulated some £45 millions in gold and sterling in London, and some £62 millions in gold and sterling altogether. This was in addition to their massive unnecessary accumulation of silver coins and bullion, which could not be used for international payments as would have been the Indian gold and sterling used to buy up the silver. Table A.3c in the Appendix shows that even the gold in this reserve was converted into silver in the period 1907–09. It is surely unrealistic to assume that the brilliant and perceptive Keynes was unaware of the use of excessive Indian reserves by the Secretary of State in London, including the unnecessary purchase of silver, to bolster the London money market.

Keynes also supported the official view that there would be no advantage to holding gold in India and extraordinarily advised the Indian public to learn that it was 'extravagant to use gold as a medium of exchange, foolish to lessen the utility of their reserves through suspicion of the London Money Market, and highly advantageous to their own trade and to the resources of their own money market to develop the use of notes'.[80] Keynes explicitly defended imperial interests by claiming that there was a 'powerful, natural and yet unfounded prejudice' that the Secretary of State, under corrupt or interested pressure, could easily place Indian gold in London at the disposal of London financiers or that Britain might use India's gold as her own war-chest.[81]

However, Chapter 6 refers to Blackett's 1914 memorandum, which substantiates precisely what Keynes was denying. Moreover, Keynes' arguments above were in contradiction to his own criticism of the Secretary of State, who during the crisis of 1907–08, took no step to counter the depreciation of the rupee, which Keynes noted, 'could not have fallen so low if the Government had made gold freely available in India'. While Keynes partly rationalized this failure by observing that 'their Indian gold reserve was not large', we have shown that this was itself the result of decisions by the London authorities themselves to minimize gold reserves in India and

maximize those in London.[82] Keynes made no comment on the failure of the Secretary of State to use Indian gold in London to support the falling rupee when the imperial authorities had created a Gold Standard Reserve and moved Paper Currency Reserve gold from India to London precisely to support the rupee exchange.

Yet another anomaly observed by Keynes without any further analysis was that the Secretary of State, deprived of his usual source of income from the sale of Council Bills, was meeting his normal expenses by selling the gold securities from the Currency Reserve in London, while refusing to use them for currency purposes as originally intended.[83]

Government Cash Balance policies

Keynes argued that no serious blame could be attributed to the authorities' policy of holding and lending large cash balances in the London money market since it was not part of any permanent policy and these funds were necessary for the remittances to London.[84] He observed that in 1874, the Government had decided to lock up surplus government balances in treasuries because the banks were not able to let the Government have a large sum of money for famine purposes.

In 1876, it was decided to leave only certain minimum sums with the Presidency Banks. From 1892 to 1899, loans were made very rarely, and none since 1906. In 1910, the Indian Government cash balances in London were roughly equal to the cash balances of all the Indian banks put together.[85] While it was subsequently proposed that surplus government cash balances should be lent to the banks for short term under suitable conditions as to interest and security, this was not acted upon, according to Keynes, because the Indian authorities thought it 'improper that the Government should appear to enter into competition with the Banks'.

This reasoning was quite flawed. The Banks were not allowed to have recourse to the London Money Market and if they had called in loans from the Indian money market, they would also have reduced the resources available for the famine. The authorities' justification for refusing to lend their balances to the Indian money market on the grounds of not wishing to appear to compete with the Banks was also weak: in removing the powers of note issue from the Presidency Banks, the Government had implemented the most vicious form of competition – that of complete elimination of its competitors in note issuing. Lastly, the imperial authorities' use of isolated incidents to justify draconian restrictions on normal capitalist processes in colonies was rarely if ever practised in Britain itself.

Keynes did admit that the Indian discount rate would not have risen so high if the Government had lent out part of the huge amounts of rupees lying idle in their Treasuries.[86] Keynes was also critical of the Government of India of busily 'increasing the stringency by taking off the market, week by week, rupees which for the moment they did not in the least want', when

there was a high Bank Rate.[87] He also found them guilty of renewing India Bills in London, even when they did not have to pay any debts in India or in London, and when they could very well have afforded to discharge them.[88]

While Keynes defended official policy, he also implicitly criticized it by recommending that further accumulations in the hands of the Government be put at the disposal of the Indian Money market and not converted into sterling. Keynes concluded that the absence of machinery to do that constituted a serious gap in the country's financial system. He also recommended that the surplus funds in the Paper Currency Reserve should be put at the disposal of the Indian Money Market to provide elasticity in the busy season without recourse to London.

The evidence indicates that both Keynes and the Abrahams Memorandum were simply incorrect in their claim that the Government cash balances in India and London were logically in proportion to the corresponding expenditures in the two countries. While the proportions may have been reasonable for 1913, the proportion in London had been steadily increasing from 20% in 1893 to 60% in 1912; only in 1913 did it drop to about 30%, possibly a shrewd imperial strategy in advance of the Chamberlain Commission (Table A.3a, Appendix). Moreover, while the absolute amounts kept in India were roughly what was needed, the balance in London for the previous ten years had usually exceeded the amount needed by up to 200% – even greater than the balance usually kept by the British Chancellor for the British Government's needs.[89] Indeed, this chapter has shown that all the measures which Keynes recommended for alleviating India's monetary stringency had previously been proposed by banks, chambers of commerce and the Government of India, but overruled by London. India's monetary problems were the direct result of decisions by the London authorities, and not the Government of India who Keynes held responsible.

These apparently irrational imperial policies creating or tolerating monetary stringency in India may have several logical explanations underlying wider imperial objectives. First, the decision to force India to maintain idle balances in the treasuries in India would have encouraged them to move the funds to London where they could earn some interest. Second, the authorities may have wished to minimize credit creation by banks since they were aware that expansion of domestic credit would result in increased domestic expenditure which in turn would inevitably reduce Indian sterling reserves, as Polak (1957) had described. Third, with the rupee exchange rate depreciating after 1873, the authorities may have begun to create an artificial monetary scarcity in order to encourage the Indian imports of silver. Fourth, the imperial objective of raising the gold value of the rupee by closing the Indian Mints to silver would have been retarded if credit creation within India had reduced the demand for currency.

Keynes did point out a number of fundamental faults in the Indian monetary system: the divorce between note issue and banking which

was contrary to modern banking practice; the resultant necessity for two separate reserves for Government and the banks, with the former's reserves creating an insufficiency in the banks' reserves, without the government taking any responsibility in the whole matter; the resulting lack of monetary elasticity in the system; the Government's inability to use its cash balances to the best advantage since it could not prudently place the whole of its free resources in the hands of private institutions; the lack of general direction in the banking policy of the country; and the complete lack of financial expertise in the Government of India itself, resulting in the center of power gravitating to the India Office and the Secretary of State in Council in London.

What does surprise is that, while Keynes observed that a Central Bank (or State Bank) would have been able to ameliorate all of the above faults, he did not pursue analytically why the authorities continuously rejected proposals for one in India. He did point out that an early 1836 proposal for a State Bank was smothered in 'the magnificent and empty maxims of political wisdom'. Significantly, the argument then was that it was 'not for the interest of a State that a great institution of the kind should grow up for all India, the interests of which may in time be opposed to those of the public, and whose influence at any rate may overshadow that of the Government itself'.[90] Such logic was not applied to the Bank of England.

Keynes' own proposal to the Chamberlain Commission for an Indian State Bank was also to no avail, and the previous quote was probably still relevant. The presence of a strong central monetary authority would of course have prevented the Secretary of State for India from exercising his total discretionary control over the Indian funds. Despite the recommendations of numerous official inquiries like the 1926 Hilton-Young Commission, India would not obtain a State Bank until 1934. Even then, it was modeled on the conservative Bank of England, rather than the more suitable continental ones advocated by Keynes.[91]

Keynes alleged that India was in the forefront of monetary evolution with her Gold Exchange Standard, as illustrated by the use of the same system by Britain in other British colonies, such as in the Straits and West Africa, ignoring that the undesirable policies derived from the far more important Indian experience was driving similar undesirable policies for the minor colonies. Keynes also pointed out that United States had copied the system with her own dependencies in the Philippines, Mexico and Panama, the French had adopted it in Indo-China, while a similar system had indeed existed under the Dutch in Java[92] in their colonies or neo-colonies. It could be argued that the common element in all these examples was not the inherent superiority of the system, but the unfair benefits being enjoyed by all the imperial powers concerned.

Keynes did make the serious indictment that 'in her banking arrangements, in the management of her note issue, and in the relations of her

Government to the Money Market [India's] position is anomalous, and she has much to learn from what is done elsewhere'.[93]

Keynes strangely attributed the errors and anomalies in Indian monetary policies to the lack of financial expertise in the Government of India.[94] Yet the internal imperial correspondence clearly shows that imperial currency and monetary policies for India were implemented after much internal disagreement between the authorities. Most of the weaknesses pointed out by Keynes, were usually the end result of the London authorities overruling quite sensible recommendations by the Government of India.

Throughout his life, Keynes was a major player in the London stock and money markets and, as one of the most brilliant members of the British civil service elites, would have also been well aware of the inner workings of the City and its relationships with imperial financial interests, including that managed by the Secretary of State for India and the Colonies.

Ambirajan's (1984) *Political Economy and Monetary Management of India 1766–1914* has an enormous amount of material which resonates with this chapter, although much would need to be reinterpreted in the light of this book's contents. Ambirajan has considerable material on Keynes' influence on Indian currency and monetary policy. He points out (p.164) that Keynes obligingly sent the influential Lionel Abrahams at the India Office a paper justifying the refusal of a gold mint in India; wrote in the *Economics Journal* defending the policies of the Secretary of State for India in selling excessive Council Bills even though it caused a monetary stringency in India. Sen noted (p.167) that the approval of London financial interests was crucial for any policy, including India's reserves policies, which 'did not involve shifting even an ounce of gold from London'. Yet, the central bank proposal for India, while it had the blessings of the India Office bureaucracy and the powerful advocacy of Keynes, did not become policy, because of the City rejection of it (Ibid p.170). Keynes gave public support to the policy of locating a gold reserve in Britain, as well as investing part of it in English securities, in a letter to *The Times* (14 November 1914), which was declared by an India Office bureaucrat to be the 'best statement our side has yet prepared'.

One of Ambirajan's objectives was to 'examine how ideas of economists have been utilized by 'practical' men, noting that (p.179) economists could provide three types of services: the diagnosis of the problem, the methods and techniques of choosing alternative solutions, and justification and/or rationalization of action already taken. Ambirajan thought that economists' effectiveness depended on centers of decision-making and the role of pressure groups.

He noted (1984, pp.182–83) that, at the India Office, the most influential experts were conservative career bureaucrats who had never been to India, had little sympathies for Indian political aspirations and 'Naturally they were able to see eye to eye with the strong "Treasury" and "City" interests

who had the same conservative views. In this powerful alliance, economics and economists could only perform a secondary role.' Ambirajan concluded that economists were essentially legitimizers: 'Keynes' own performance as the unofficial economic adviser to the India Office in the first two decades of the century amply demonstrates Joan Robinson's dictum: "It is the business of the economists, not to tell us what to do, but show why what we are doing anyway is in accord with proper principles".' Yet Ambirajan still asserted that it was 'untenable' to argue that economists were part of a deliberate deception to 'defraud and drain India' and it was 'no more than the instinctive or blind assertion of the dark unconscious of the collective self-interest trying to determine the shape of Indian policy to suit the national/class interests of the economists'.

Yet it is difficult to imagine that a brilliant economist and intellectual such as John Maynard Keynes would not have seen clearly the machinations of the imperial authorities and not been aware of his own role in the process. Despite Keynes' many perceptive criticisms of imperial policies on Indian currency and finance, there is a notable absence of a holistic academic analysis, which took into account the overall impact on India, in whose service he was, at the India Office. It could be argued that Keynes' analysis was deliberately weak because of his patriotism and perhaps the self-interest of a brilliant young economist starting out on a promising career as an imperial civil servant, knowing full well what his superiors wanted from him as a 'legitimizer' of imperial policy.

What is clear from Kuhn's (1962) analysis of the structure of scientific revolutions is that 'normal' or 'positive' science or economics, chooses to work within paradigms which decide what 'problems' should be examined and what not, what methods to use and what not, and what may count as solutions and what not.[95] In economics, there is no questioning the legitimacy of the 'state', which makes the decisions on currency or monetary policy for India. For Keynes to write holistically on the problems facing India, would have also required him to elucidate the objectives of the British Government, the powerful City interests in London, the British commercial and British civil service interests in India, as well as what was best for the Indian population, not the Indian elites. These would all have been at Keynes' fingertips, but incorporating them into his analysis and writings would not exactly have been a path to glory within the India Office. It seems that even his brilliant intellectual reputation was given a beating now and then from the 'practical' men in the City, a not uncommon experience for academics often accused of 'textbook' learning by disagreeing corporate elites.

Also in play may have been Keynes' personal financial interests and those of his family, friends and institutions he also managed, which often resulted in speculative dealings in the stock markets. From the beginning of his investment career, Keynes is reported to have gone long on rupees and the US dollar, making as much profit from currency speculation as he did from

stocks.[96] He would have been fully aware of the implications of the interventions in the London money market by the Secretary of State for India in order to bolster sterling, the resulting direction of the pressure on the value of the rupee, and fully aware of the costs to India. A perceptive and a mostly successful stock market player like Keynes would also have been well aware of the identity of the City interests who benefited from the imperial policies on Indian reserves.

Ambirajan footnoted (p.183) quoting the General Editor of *Keynes' Complete Works* that Keynes' 'only major policy contribution as a British official involved a clear case of imperial-colonial exploitation: arranging to buy for British consumers in the First World War a surplus of Indian wheat available at a price below the World market price because the India Office had held the price down with the aid of an export embargo'. This chapter suggests that Keynes was involved in far more diverse policy advice, and of greater importance for imperial interests.

De Cecco (1974:16) correctly observed that Keynes did 'not try to introduce an analysis of the international monetary system based on the complementary relationship established between developed and underdeveloped countries'. Bagchi (1982) thought that Keynes' writings on the Indian gold exchange standard was 'apologetic'. It would be difficult to disagree with either.

Keynes' advice was also sought by the Colonial Office when the currency board system came under academic criticism during World War II, especially for the excessive sterling reserves held in London. Towards the end of World War II, Keynes became a British Government representative to the Bretton Woods conference, defending British interests and the role of sterling in the new global order. Keynes would have been well aware that both depended on the maintenance of colonial gold and sterling reserves in London within the control of the imperial authorities.

Conclusion

While the 1912 Chamberlain Commission had observed that the monetary system in India by 1912, had no resemblance to the recommendations of either the 1893 Herschell Committee or the 1898 Fowler Committees, the evidence suggests that these committees of inquiry were not neutral. Indian critics accused both the Herschell and the Fowler Committees of narrowly selecting their witnesses.[97] Kaminsky (1980:323–25) documents that the authorities not only attempted to exclude 'undesirable' witnesses from the Fowler inquiry but even tried to accede to the City's demands that whatever system was adopted, gold should not be allowed to go to India. In the end the London authorities implemented policies through ad hoc decisions to satisfy the London Money market, even if it meant ignoring key recommendations of their own committees of inquiry.[98]

A former Viceroy of India (Lord Curzon) accused London of being financially autocratic in overruling the Government of India on crucial issues, in contradiction of the role of the Secretary of State as the official and only guardian of the interests of the Indian tax-payer. Changes in policy, whether nominally initiated by Finance officials in India or by the Government of India itself, owed their origins to imperial dictates from London, usually overruling the sensible opposition of Government of India officials.[99] Any 'consensus' between the two, was not on the basis of currency principles per se but on the grounds of political expediency in order to answer public criticisms of their policy, with key appointments being made to ensure the changes were made.

Most of these policy changes were explicitly in the interests of the London Money Market and to the disadvantage of the Indian money market and economy. These included the unnecessary transfer of gold reserves from India to London, the conversion of rupee Indian Government securities backing the paper currency into sterling securities, the investment of the Gold Standard Reserve in London rather than in India, the investment of sterling reserves in depreciating British Government securities rather than in sterling securities of India and others earning higher returns, the conversion of gold reserves into inconvertible and depreciating silver reserves maintained at unnecessarily high levels, and the excessive withdrawal of government funds from the Indian Money Market either into Indian Government Treasuries, where they were idle, or to London. The imperial authorities were fully aware of the resulting stringencies in the Indian money markets, and the enormous opportunity costs in development foregone in India such as on irrigation or railway infrastructure.

Kaminsky (1980) has pointed out that, throughout the 1890s, proposals by the Government of India to establish a real gold standard by taking measures to encourage gold sovereigns to be exported to India were vehemently opposed by the gold interests in the City. The Bank of England itself threatened to use its discount rate to prevent any export of gold to India should the authorities attempt any such policy while the Government assured the City interests that the Fowler Committee would not go against their wishes. Regardless of the recommendations of the Fowler Committee, the authorities ultimately established a currency system more in keeping with their own priorities.

The City had a powerful influence on imperial currency policies in India through direct representation on the Finance Committee of the India Office. It was involved in decision-making at the highest levels, in the placing of Indian funds on loan or deposit and currency policy, including the investment of Gold Standard Reserves and Paper Currency Reserves, and sale of Council Bills.[100] While the authorities justified the City representatives on the grounds of their financial expertise[101] Indian critics saw them as having clear conflicts of interest as direct beneficiaries of their own policies.[102] These

important City interests had been represented on the Finance Committee continuously since 1880.[103] It would be a useful and fascinating area of future research to clarify which City financial interests were involved in the purchase and sale of colonial and Indian gold and silver in the London money market, and their links to the Indian Office, the Treasury and Bank of England.

Sen's (1992:62) noted that the Secretary of State for India kept Indian silver merchants out of the London market by denying them silver purchase contracts. Instead, the banks favored some London based European merchants having closer contact with the Secretary of State for India. Sen also noted (1992:123) that the purchase of silver was exclusively an India Office monopoly; the Secretary of State refused a Government of India request to buy directly from markets around the world; the Bank of England had a six year contract in 1906 to purchase silver for Secretary of State; and Government of India found Secretary of State buying silver at prices higher than those quoted in the market that day, while Indian silver dealers were refused sales, even though offering better prices than the market. Sen notes also that there were family links between silver merchants and the Secretary of State's advisers on Council.

From 1908 to 1912, the Indian Government cash balances alone, lent in London at mostly concessionary rates of interest, rose from £5 millions to £18 millions, while aggregate sterling balances went from only £5.1 millions in 1901 to £40 millions in 1911. Monetary authority Sayers (1976:62) himself noted that, in 1913, the authorities feared that the Chamberlain Commission on India might bring the Indian system 'more in line with the standard system' which might deprive London of the Indian balances which 'had been handy upon occasions'.

Chandavarkar (1983:763) thought that the classic debates of the bullionist, the Banking, and the Currency Schools had 'little direct influence on Indian monetary problems' and quite incorrectly claimed that the important issue of a productive use of seigniorage profits never figured too prominently in Indian monetary discussions. He did point out however (1983:774) that Keynes 'was gently chided by Sir Lionel Abrahams, the perceptive civil servant, for the absence of any provision in his otherwise admirable memorandum on the "Indian State Bank", to use the profits from seigniorage on Indian coinage and fiduciary currency, for industrial investment such as railways.'

The evidence suggests that the London authorities were all too interested in the use of the seigniorage profits, but in London rather than India. Contrary to Chandavarkar's view, the Indian paper currency system before 1898 did have some initial resemblance to the English system created by the 1844 Bank Charter Act, but even that resemblance had to be eliminated to satisfy the imperial objectives of moving Indian reserves to London. Far from the Indian system escaping the thrall of the currency board system, the next two chapters show that the significant changes instigated in the Indian

currency system between 1893 and 1912, became central components in the currency board system definitively established in West Africa.

Indeed, the rigid rules of the currency board pre-empted the kinds of conflicts engendered by imperial policies in India: by 1912, Indian currency could only be issued in exchange for gold or sterling with the reverse convertibility not guaranteed; the standard coin still had to be of silver; a third of the currency reserves had to be in silver coins; the difficulty of moving the Paper Currency Reserve to London, was eliminated by creating a special Gold Standard Reserve out of the seigniorage profits on coining rupee tokens, kept from the beginning in London; inflated desirable levels for the Gold Standard Reserve were then used as justification for simply transferring Paper Currency Reserve gold in India to London; while the Paper Currency Reserve originally had only domestic Indian Government securities, the Gold Standard Reserve investments were all stipulated to be in sterling securities and eliminated the conflict over investing increments to the Paper Currency Reserve in sterling; the running down of the gold reserves was opposed even for its originally intended legitimate purposes; the Secretary of State insisted on retaining his powers over the choice of investments, including the undesirable British Government securities and Consols; and the holding of Indian Government securities was opposed.

The continued imperial opposition to a gold circulation in India meant that for decades India continued to absorb the internationally demonetized silver, which could not but depreciate over the long run. Bagchi (1982:90) points out that 'India and China were used as dumping grounds for depreciating silver (during the period 1872–94 in the case of India, and up to a much later period in the case of China) when the advanced capitalist countries adopted gold as their monetary standard'. The figures in Table A.2h (Appendix) show that both India and China continued absorbing massive amounts of silver well up to 1930.

De Cecco (1974:71–73) concluded that Britain's monetary policies in India helped to reduce interest rates in London by a number of measures: transforming Indian surpluses into silver rather than gold, transforming gold reserves into British Government securities, placing large deposits with London Finance Houses at call or short notice, and by selling more Council Bills than were needed for funds in London.[104] He concluded (1974:67) from his study that 'the reserves on which the Indian monetary system was based provided a large masse de maneuver which British monetary authorities could use to supplement their own reserves and to keep London the center of the international monetary system'. Bagchi (1982:119) similarly concluded that India's sterling balances were used 'to counter any pressure against the external value of sterling, and ... to stabilize the operations of the London Money Market'.

While the evidence in this chapter substantiates these views to some extent, the overall complexity of the subject matter canvassed here in this one chapter is surely deserving deeper studies which will not lack in intellectual excitement. Indeed, the diversity of dramatic plots and characters deserving a world stage, tragic outcomes such as extreme Indian poverty and millions of famine deaths, all resulting from seemingly dry imperial policies on currency and money, enriching London financial elites, would seem to be an extremely appropriate mix for a typical Merchant Ivory Production scripted by Ruth Prawer Jhabvala, set in the British Raj.[105]

In the next two chapters, the same imperial objectives are revealed, in the creation of currency board systems in the Straits and West Africa in 1912.

5
Straits Settlements, 1893–1912: Transition from India to West Africa

Introduction

Imperial policies in the Straits Settlements is useful to analyse as a mid-way point between policies in India and in West Africa, where the currency board was formally established. The Straits consisted of four separate British settlements on the Malayan peninsula: Singapore, Malacca, Dinding and Penang.[1] Originally ruled by the British East India Company, it became a subdivision of the Presidency of Bengal in India in 1830. In 1867 it became a British colony proper, ruled directly from the Colonial Office.

The majority of the population were ethnic Chinese many of whom were successful traders while there was also a powerful minority of European trading companies, who exercised some influence on imperial authorities. There was also a minority of Indians brought in largely as laborers but some also became traders. During the latter half of the nineteenth century, Singapore became a powerful entrepot trading center for the entire south east Asian region. The Straits, like India, also had colonial commercial interests, both British and local, who were extremely knowledgeable on currency and money matters and were therefore able to voice credible opinions on the proposals by imperial currency committees. Singapore was also a most important regional trading hub, served by a genuine currency area cutting across several national boundaries. Key policy changes being instigated by imperial authorities in the Straits, also matched similar measures in India, as discussed in the previous chapter.

Between 1867 and 1903, the Straits Settlements were on a silver standard based on British and non-British silver dollars,[2] which from 1897 were supplemented by a government note system. Following the western demonetization of silver after 1871, these silver dollars suffered a long-term depreciation, along with silver, for more than 30 years.[3] Following the 1903 Straits Barbour Committee of Inquiry,[4] all dollars were demonetized and a gold standard was supposedly established, based on new Straits silver dollars

as standard coins, backed by a Gold Standard Reserve Fund, with different rules of operation from the already existing Note Guarantee Fund.

The basic tenets of the Straits Barbour Committee's analysis have been generally accepted in the literature. King (1957:27–28), for instance concluded that if the main objectives of the Straits currency system were to provide a medium of exchange and store of value, maintain public confidence and satisfy the requirements of trade, then the solution must 'inevitably be that a paper currency must have at least 100% backing and a high proportion of liquid assets in the reserves'. He argued that an independent monetary policy by the Straits Government would have instigated exchange instability with deleterious consequences to trade and foreign indebtedness. Drake (1969:27) similarly concluded that it was the 'safeguarding of international trade and investment which motivated the currency reformers and provided Malaya with a monetary system which was simple, inexpensive, and ideally suited to a period of colonial expansion and capital migration'.

This chapter explains why the objectives considered important by King and Drake were not the major considerations when Straits currency policy was being formulated in London. As in India, major changes in currency policy took place over 1908–09, following the 1907–08 major liquidity crisis in the London money market. The evidence provided by official internal correspondence between the London and Straits authorities[5], show many areas of policy disagreements, with the typically more rational Straits colonial position usually being overruled by London in imperial interests rather than that of the colony, contrary to the views of Nelson (1987).

Following a description of the evolution of the currency system before 1903, this chapter contrasts the official recommendations of the Straits Barbour Committee with the contrary but more cogent views given by the Straits commercial interests, both British and the sizable and knowledgeable Chinese business communities. This is followed by an outline of the actual changes in currency policy between 1903 and 1909. The last section covers the period 1910 to 1912, by which time the Straits currency system was almost identical to the currency board system established in West Africa. The concluding section then reassesses the literature on the Straits currency system in this period.

The Straits Herschell Committee 1893[6] and the silver standard before 1903

Following the 1826 takeover of the Straits administration by the East India Company, imperial attempts to monetize Indian rupees and sterling failed, because of the popular preference for the silver dollar.[7] In 1867, when the Colonial Office took over the administration of the Straits, the existing silver dollars were ratified as the standard coins.[8] While it has been thought that the latter was necessary because the Straits fell into a 'natural dollar currency

area'[9] Chapter 3 has shown that the imperial authorities were trying to circulate not the internationally acceptable gold sovereigns but British silver tokens, which, along with the rupees, were being given higher than the market valuations.[10] 1867 was also the year when the metropolitan countries had decided to adopt gold standards and demonetize silver. The policy to monetize silver dollars in the Straits was thus part of the broader imperial enforcement of silver currencies in the colonial Empire. In the Straits, as elsewhere, Britain paid no heed to the currency area principle, by continuously rejecting on dubious grounds, all requests by British traders for the minting of British trade dollars of full silver content. The authorities claimed that the high cost of silver made it uneconomical for the British Mint to produce a British dollar of the same fineness and silver content as the Mexican dollar (King 1957:36). But the Hong Kong mint which minted British dollars for one year only in 1866, was bought by Japan who used it to coin silver yen which were not only similar to the British and Mexican dollars, but were monetized and circulated in the Straits until their demonetization in 1895 (King 1957:102).

After twenty years of depreciation of silver and the dollar, the Straits Colonial Government in 1893 appointed a local Straits Committee of Inquiry into the Straits currency instability.[11] While stating a duty to receive the statements and views of all classes of people, the Committee represented the views of only the British expatriate commercial interests and specifically excluded the views of the majority of the traders who were Chinese. This Report stated that 'thinking men of the Colony of all classes' were agreed that the depreciation of the dollar had been disadvantageous. It listed a litany of problems faced by the British commercial interests: investment of British capital had been discouraged; previously invested capital had declined in value; the standard of living of European employees had declined; public revenue had fallen by 17% while debt charges which had to be met in gold and sterling had increased still further; and the import trade had also suffered from the continuing exchange fluctuations. It concluded that while 'the easiest and most practical' way of obtaining a silver currency on a gold standard, would be to extend the Indian currency to the Straits Settlements, this would be advocated only if a gold standard with a new Straits silver dollar faced insuperable difficulties.

Also in 1893, the imperial authorities appointed the Herschell Departmental Committee to inquire into the Straits currency problems.[12] The Committee recommended that, as a precursor to the adoption of a gold standard, a new British silver trade dollar be coined in the Bombay Mint and made full legal tender in the Straits. It was expected that it would circulate throughout British South East Asia. The metropolitan interests in the Straits, however, were opposed to a continuation of the silver dollars and standard and wanted the adoption of a full gold standard.

As in India, the recommendation for a gold standard was opposed by the local commercial interests who feared a breakdown of trade with the

region.[13] The Chinese merchants argued that the depreciation of the silver dollar was promoting the development of the internal resources of the Straits and the Protected Malay States. They pointed out that unlike European capitalists who always returned home with their capital, the Chinese capitalists remained as permanent settlers in the colony. They argued that the low price of Straits produce in gold using countries was not due to the depreciation of silver but to the general depression in gold-using countries. They pointed to the significant costs in demonetizing the old currency, as well as the severe economic disadvantage in forcibly replacing it by essentially localized tokens, which would 'handicap all local industries, impede their development, and raise unnecessarily the price of every class of labor ... restrict the sphere of all commercial transactions ... [and] alienate a portion of our trade'. They recommended a British trade dollar of the same weight and fineness as the Mexican dollar with just compensation for British officials who were suffering from the depreciation.

One perceptive critic, while agreeing that the Straits would benefit from having a currency with a fixed value in gold, cogently pointed out that there was no sense in the imperial authorities[14] 'starting, without there being a necessity for so doing, a legal tender silver token ... of the face value of 3s., established by the Government at a cost of 2s.6d., and against which the Government accounts show an asset of 2s.6d., whereas the metal in the same has subsequently depreciated to 2s., such coin being absolutely inconvertible into gold'. The authorities were forcing the absorption of a metal which could only be disposed of in future at a loss, while the most sensible policy would have been to have a Government note issue covered fully by the nominal amount of gold resources. It would be another 30 years before 'an overvalued silver coin was deemed an anachronism' in the Straits.[15]

The government note issue, 1899

While the Straits had experiences of both failed as well as successful private note-issuing banks, British commercial interests had long opposed a government paper currency on the grounds that it would interfere with the private bank notes.[16] Nevertheless, even though the reserve requirements for the private banks were lenient relative to what would be required of government note issues as elsewhere[17] their note circulations remained quite small.[18]

In 1897, the authorities established a Board of Commissioners of Currency, with powers to issue government currency notes to be backed by reserves held in a Note Guarantee Fund and a Depreciation Fund.[19] Two thirds of the Note Guarantee Fund was to consist of legal tender coins (silver dollars), while the remaining one third was to be held in an Investment Fund containing Indian Government or other securities. The income from the Note Guarantee Fund was to be accumulated as a Depreciation Fund which was to be built up until it was 10% of the Investment Fund, after which the

revenue could go into the colony's General Revenue. If the total backing fell to less than the nominal value of the notes, then the difference was to be appropriated from General Revenue.[20] The ultimate liability for the notes was to rest on the General Revenues of the Colonial Government.

This Government note issue was so successful that the specie reserve was reduced in 1902 to one-half and Commissioners of Currency in 1904 concluded that the 'public confidence, including that of all classes of natives, in the Government Paper is so great, that it will certainly hereafter represent the bulk of our local currency'.[21] The backing securities included those of other colonies such as India, all to be forcibly reduced over the next decade by London authorities.

Surprisingly, despite the general acceptance of the notes and colonial requests for notes of low denomination, the authorities had long refused to allow the issue of one-dollar notes, possibly because of a fear that the notes might completely displace the circulation of the silver coins. Similarly, the British Treasury had rejected 1872 colonial proposals for the issue of $1 notes in Hong Kong, possibly because of a fear that, if silver coins went completely out of circulation, the colonies would demand convertibility into, and a circulation of, gold coins. Nevertheless, the privately owned Hong Kong and Shanghai Bank was allowed to issue these notes of small denomination.[22] One-dollar notes were not issued until 1906, but by 1910, notes had become the dominant part of the currency circulation.[23]

The Straits Barbour Committee, 1903[24] and proposed 'Gold Standard'

In 1903, London belatedly cited the continued depreciation of silver and silver standard currencies and the conversion of other countries[25] to gold as justification for appointing the Straits Barbour Committee to assess the desirability of introducing a 'gold standard of currency' in the Straits Settlements and the neighboring Malay States.[26] The Committee concluded that, with the exception of the banking and mining interests, the majority of those able to form an opinion (i.e. the European community), were nearly unanimous in favoring a change to the Gold Standard based on a new Straits dollar. The Committee acknowledged that they did not represent the views of the natives or the Chinese who formed 95% of the population.[27] The evidence indicates also that that the majority of British commercial witnesses in the Straits were opposed to the proposals in key aspects.

Exchange stability with Britain and rejection of the currency area principle

The Straits Barbour Report, while acknowledging that the Straits had prospered under the depreciating silver standard,[28] now argued that at some point the advantages of a falling exchange would be offset by the disadvantages,

while those who had lost because of the dollar's depreciation could fairly ask to be protected from further loss. The Report asserted that there would have been the same or greater prosperity if the gold standard had been in existence over the same period.

The Straits Barbour Committee now cited a number of reasons for adopting a gold standard. First, the Straits would probably be raising loans in London. Second, the Strait's trade with gold standard countries in aggregate was greater than that with silver standard countries and likely to become larger.[29] Third, if the Straits continued on the depreciating silver standard, the fluctuations in exchange with gold standard countries discouraged European traders and the investment of European capital.

The Report admitted that the introduction of the gold standard would transfer the exchange instability from trade with gold standard countries to trade with the silver countries, possibly to the latter's disadvantage. They however claimed that the evidence before them 'justified the belief that the Chinese merchants who chiefly manage the trade between the Straits and the adjoining silver-using countries are as well-fitted to deal with difficulties of that nature as merchants of any other community'.[30] The Committee sought to protect European merchants and investors from exchange instability while Chinese merchants, who were perceived as incapable of holding credible opinions on the subject of currency policies, were supposedly able to cope with it. The Straits Barbour Report's logic has been largely accepted in the literature.

Thus Drake (1969) saw as significant that there had been an increasing surplus trade balance with gold standard countries, in contrast to the large and growing deficit with silver standard countries.[31] He argued that while depreciation of the dollar had stimulated Straits exports to gold standard countries, the depreciation had 'gone too far'. Drake reasoned that the depreciation increased the dollar costs of imports from gold standard countries; worsened the position of debtors with sterling debts, including the government; discouraged capital inflows because of fears about the rate at which it could be repatriated; slowed the entrepot trade down because of traders' uncertainty about the future; and also brought about further falls in the exchange rate through exchange speculation against the dollar.[32]

King (1957) specifically discounted the currency area advantage by reiterating the Barbour Committee's conclusion that the depreciation of silver presented problems, which were to prove 'greater than the advantages afforded by the unity of Far Eastern currency'.[33] However, the evidence given to the inquiry by commercial interests indicated otherwise.

Heads of major metropolitan trading and banking firms in the Straits all presented arguments supporting the retention of the depreciated silver standard, rather than the adoption of an appreciated gold standard. They argued that, with costs in silver prices and wages not adjusting completely to the new exchange rates and increased export revenues, the low exchange

rate implied a relative advantage over gold standard countries in production, especially in mining and plantations. The larger exports then also led to larger imports and investment.[34]

These commercial witnesses pointed out that while the Straits, China and Siam had all benefited under silver standards, the experience of Java and India testified that the adoption of a gold standard while leading to large imports from gold standard countries, would not guarantee an expansion in export trade or investment. It was argued that the adoption of the gold standard would necessarily lead to a contraction and scarcity of money which must lead to greater injustice and damage to the economy.[35] The traders' advice was that the most important requirement for the currency system was to provide an adequate supply of money at all times. The Straits Barbour Committee's astonishing reply was that they did 'not understand that the question of the supply of a circulating medium for trade transactions within the colony [was] the important point'.[36]

Local commercial interests pointed out that it was unjust to eliminate the silver standard in order to eliminate exchange risks for Europeans who were only 0.1% of the population. The non-Europeans who benefited from the silver standard were not only the majority of the population but it was they who paid for the costs of administration.[37] Witnesses warned that the Straits Barbour Committee's proposals would also lead to a severe dislocation of the regional trade conducted with silver standard countries with the danger of trade being diverted to Hong Kong or Europe.[38] The Committee, however, countered that others in the region already had or were about to adopt gold standards[39] and advised that the Straits Chinese merchants could still purchase Mexican dollars as merchandize for trading with silver standard countries. It was evident that ensuring exchange stability between the Straits and Britain had a greater priority with the Barbour Committee than exchange stability for trade within the silver dollar area, which would have been the essence of the principle of a 'currency area'.

It is of interest that one of the members of the Committee (Hulland) observed that the Indian coolie was dissatisfied because he was not able to remit the same number of rupees as before the dollar's depreciation, but the Chinese laborers' eyes had 'not been opened to the same extent' and that as long as he could get his 'opium and his rice and so many dollars to remit, he [was] much the same as before'. [40]

Imperial opposition to gold circulation and convertibility in the straits

Most witnesses to the Straits Barbour Inquiry thought that the simplest way of having a genuine gold standard would be to allow British sovereigns to be freely available in exchange for notes or token silver.[41] The Straits Barbour Committee Report insisted, however, that there should be no such legal

obligation nor should it be 'indispensable that any gold coins should be made legal tender in the Colony and the Federated Malay States'.[42]

The objectives of the imperial authorities may be surmised from the Committee's leading questions to, and what would seem to be 'pre-arranged' replies given by one witness representing the Sultan and the Jahore Government.[43] Dato Abdul Rahman advised that it should not be obligatory on the Colonial Government to meet its obligations in gold; that in the Straits the new dollars should not be redeemable in gold for two years because the natives would flock in to get gold; that gold contracts should be prohibited between parties in the Straits; that the Colonial Treasury should nevertheless give gold for dollars to help trade, if the gold was intended for remittance to a gold standard country; and that the Straits Government should initially even borrow a certain amount of gold to strengthen the reserve and enable it to cash the dollars where necessary. There were identical responses from another witness (R. Craig) who admitted that he was not a financial expert but had been asked by a member of the Barbour Committee to suggest a plan for establishing a gold standard.[44]

Silver dollar tokens, demonetization of British dollars, and high exchange rate

While the Straits Barbour Committee acknowledged that a gold standard with a paper currency might have been ideal, it claimed that, as in India, such a plan might have had a great risk of failure, because of 'the possible suspicion and opposition on the part of the general native population'.[45] The Barbour Report insisted that, as in other Eastern countries like India, Java, Siam and the Philippines, 'although the standard may be gold, the coins in actual use must continue, for an indefinite period, to be mainly silver coins, and such coins must be of unlimited legal tender'.

The Report of the Straits Barbour Committee indicates that members were fully aware of all the economic disadvantages of a country using silver rather than gold. The Committee tried to establish in its inquiry whether the natives in the Straits, as in India, understood the relation between gold and silver, and whether natives would accept having a gold standard dollar note redeemed by a silver dollar. One witness, Jackson (representing the Hong Kong and Shanghai Bank) informed the Committee that while the bulk of the people did not know about gold, there were merchants in the Straits who knew more about it than the gold brokers in London.[46]

The Committee wished to establish that if the Straits had overvalued tokens as standard coins and the balance of trade turned against it, then it could not export that currency except at a loss.[47] It noted that if the government were destroyed, the gold standard would disappear and the holders of the overvalued coins would suffer a serious loss.[48] The Committee noted that if, following the Straits' adoption of the Gold Standard, other countries were also encouraged to join the band wagon, the cumulative effect

might drive the price of silver down further. But then, the Committee reassured, the Straits could hardly be expected to sacrifice her interests out of consideration for other countries, ignoring that the Straits' own silver assets would depreciate. The Committee also noted that the effect would be to 'throw…on the Chinaman, the fall of exchange which the European [had] been bearing up to the present'.[49]

Surprisingly, the Straits Barbour Committee insisted on the demonetization of not just foreign dollars but also British trade dollars which the authorities themselves had minted, made full legal tender and circulated in large numbers in the Straits.[50] It was argued that because these dollars could be indefinitely increased in number, an indispensable part of any scheme for the establishment of a stable Gold Standard was their demonetization and replacement by a special Straits dollar of the same weight and fineness as the British dollar, but under the control of the Straits Government. As in other colonies, witnesses complained, with total futility, that imperial refusal to redeem the dollars they had themselves minted and enforced as legal tender amounted to state robbery.[51]

As in India, both metropolitan and local economic interests in the Straits wanted a lower exchange rate. However, the Straits Barbour Committee was in favor of a high exchange rate, supposedly in order to prevent the loss of the gold standard through melting of the silver dollars.[52] As in India, the Straits Barbour Straits proposed to achieve the high exchange rate by inducing a monetary scarcity. This was vehemently opposed by the commercial interests in the Straits who argued that a tight money market would hamper business because of the resulting high interest rates.[53]

Disagreements on Straits currency policy continued, but now between the authorities in the Straits and London.

Internal imperial conflicts, 1903–09

The Straits Barbour Report and its recommendations, together with draft legislation was submitted by the Colonial Office to the Treasury[54] for approval, but there soon followed a whole range of policy disagreements between the London authorities and the Straits officials.

Demonetization of British dollars and establishment of Gold Standard Reserve

In 1904, following instructions from London and despite the protests by the Straits Government, all dollars including British trade dollars and Hong Kong dollars were demonetized, with the authorities asserting that even the British dollar after its demonetization became a 'foreign' coin.[55] Following instruction from the Treasury, the Colonial Office instructed the Straits Government to ensure that in their currency legislation there should be no legal obligation on the Straits to redeem dollars in gold, and

that they need not be empowered to give gold, since they would only issue it 'when desired'.[56] The draft regulations were also changed to ensure that, as in India, the gold received for colonial currency, instead of going into the Note Guarantee Fund, would be deposited in a new Gold Reserve Fund, totally under the control of the Secretary of State for Colonies, in London.[57]

The Treasury also insisted that silver dollar reserves to the value of one-third of the notes outstanding, be kept in the Straits 'for the better safe-guarding of the convertibility of the Government Note Issue'.[58] The initial costs of minting the Straits dollars were to come from the colony's general revenue rather than the interest from the Note Guarantee Fund as the draft regulations had stated, on the grounds that the latter would have interfered with the building up of a Depreciation Fund in London.[59]

Rejection of gold circulation and gold reserves in the Straits, 1903–07

Imperial currency policy in this period became extremely complicated because the price of silver rose temporarily, and because the authorities in London linked their decision on the par exchange rate for the Straits dollar with their attempts to impose stringent regulations on the Straits Gold Standard Reserve. Although London had originally instructed the Straits to aim for a dollar no higher than 2s., the Straits had concluded by the end of 1905, that the dollar should not be allowed to appreciate above 2s.1.5d., the existing intrinsic value of the dollar.[60] They informed London of the many economic disadvantages to a high Straits dollar and the monetary stringency which would be necessary to achieve it. The Straits Government pointed out that a high exchange rate would seriously hamper the Straits trade and especially industries whose revenues were falling in dollar terms while local wage costs remained constant. Incomes denominated in sterling would also suffer because the retail prices of English goods were slow to adjust because of the 'rigid custom' in the East.[61]

In 1903, London refused to allow the issuing of Straits dollars against the deposit of gold securities or sovereigns in the Straits, even though this would have earned interest for the Note Guarantee Fund.[62] In 1905, the Straits asked that the British gold sovereign be declared legal tender for 9 dollars, explaining that they had 'no doubt that…a gold currency would prove very convenient, and would be largely used'. They would then also be able to limit the legal tender of the 35 million silver dollar tokens already coined, while reducing its fineness in order to eliminate any risk of melting or export should the price of silver rise further. They proposed that once the desired exchange rate was reached, further increases in the supply of money could be achieved through the issue of one-dollar notes, which the Straits Government assured would be readily taken up because their note issue was 'firmly established and [was] found so convenient'.[63]

These sensible Straits Government proposals were rejected by London with the dubious arguments[64] that gold was 'scarcely suitable for circulation in an Eastern country', that the considerable expense of the sovereign fell on the British tax-payer; that the Treasury had recently rejected a similar proposal from Ceylon; that the silver dollar was not a token; and that there was no monetary stringency in Singapore.

By the end of 1905, the exchange rate had risen to 2s.2d. and forced the withdrawal and re-coinage of existing dollars.[65] The Straits proposal to convert securities into gold for redeeming notes was rejected by the Secretary of State on further dubious grounds.[66] He advised that they wait for the price of silver to fall, in the meantime imposing a note circulation as a temporary expedient. Soon after, London asserted that the provisions of the Currency Note Ordinance by which notes could be obtained for gold tendered at Singapore at the same rate of exchange as for gold tendered in London, was 'clearly undesirable, since it would enable all who wished, to remit from London to Singapore at the par of exchange. Advantage would, of course, be taken of this facility for remitting to the East generally, and the loss to the Government might be very great'.[67] The Secretary of State strangely argued that any attempt to fix a special rate at which the Crown Agents would accept gold in exchange for notes at Singapore involved 'interference by Government in the course of exchange', a policy which he considered undesirable for the community.

With the exchange rate rising to 2s.3d. a renewed Straits request to authorize the issue of currency notes in exchange for gold was again rejected.[68] The Straits continued their pressure and argued that the Straits had a prosperous community of European, Chinese and other merchants who found the existing silver currency to be cumbrous and a constant annoyance.[69] Their note issue in a short space of time had grown to more than a third of their circulation, and there was a need also for a convenient medium of high value like gold. The Governor repeated his complaint that apart from the tin and rubber industries, the rest of the economy was suffering a severe contraction of currency and general slackening of the export trade.[70] When the exchange rate rose above 2s.4d, London was warned that even the banks were pressing for notes.[71] London first delayed, and then refused to order any action claiming the exchange was too unsettled.[72] The Straits detailed the severe economic disruptions being caused by the monetary scarcity and the rising exchange[73], and complained of the error of applying the Indian experience to the Straits.[74]

The Secretary of State ultimately agreed to fix the dollar, but only if certain amendments were made to the Currency Note Ordinance:[75] there should be no undertaking that the notes would be redeemable in gold[76]; and notes were to be issued at Singapore against telegraphic transfers on London at a rate which must allow a sufficient margin over the fixed rate to cover the cost (including freight, insurance and interest) of sending gold to Singapore

from London, whether gold was actually sent or not. Oddly enough, the Treasury had informed the Colonial Office that notes could be redeemed in gold in the Straits if the exchange rate fell below 2s.3.5d.[77], although it is shown below that this advice would not be followed when that occasion arose.

Drake had concluded that the Government was 'finally obliged to fix the exchange rate sooner than it had intended' in order to ensure dollars would not be melted, to avoid interfering with the status of existing contracts, and to obviate hardship in the relations between debtor and creditor.[78] The above account indicates that other factors were more important.

In the face of continued Straits requests, London continued to give a number of unconvincing reasons why gold was unsuitable and should not be made legal tender in the Straits: that it was more cumbrous than notes; that it was unlikely to facilitate international payments as claimed by the Governor because of the exchange rate fixed for the dollar; that the public could always obtain notes and silver dollars; that the Government could not insist on paying in gold since it would imply a discrimination against silver; and it would not be in their interest to dissipate their gold reserve.[79]

With the banks also demanding to have gold reserves in the Straits, the Colonial Office sought advice from the India Office on rules for gold and silver reserves.[80] With no mention of their own internal disagreements (Chapter 4), the India Office replied that they had decided to receive their gold in London because their reserves had grown too fast in India, they saved on freight and exchange, and because this was more convenient for buying silver.[81] Using the India Office advice as justification, the Secretary of State for Colonies repeated his refusal to make gold legal tender in the Straits and instead asked the Straits how much of the Currency Note Reserve should be held in coins, and how much of that should be in silver coins held in the Straits.[82]

In mid-1906, when the Straits dollar exchange rate began to fall, the Straits asked for permission to issue gold against notes as had been approved by the Treasury a few months earlier.[83] The Secretary of State refused, even though this use of gold had been the stated objective of the Gold Reserve Fund. Despite the imperial refusal, the Straits Government did pay out gold in the Straits and succeeded in arresting the fall in exchange, probably reinforcing London's opposition to having any gold reserves at all, in the Straits.[84] At the end of 1906, the authorities allowed the Straits Governor to issue a Proclamation allowing gold sovereigns to be legal tender in the Straits.[85] Nevertheless, they also instructed the colony to remit to London more than a half million pounds of gold, which had accumulated there.

While reluctantly acceding to the instruction, the Straits Government, backed by their bankers and merchants, continued to complain about the contradiction of having a supposed gold standard system, which continued to be based on a circulation and reserves of silver dollar tokens. London was

informed that all the Straits bankers and merchants were opposed to having an artificial silver token as full legal tender and were agreed that it should be replaced by gold, which was already used for payments between Singapore and many parts of the Dutch Indies. They pointed out that for the purpose of maintaining exchange, the silver dollar tokens were only good for their bullion value, which declined as silver depreciated. It was essential that, as in Canada, the bulk of their currency reserve should be in gold to maintain the absolute security of their gold standard, and not in silver dollars.[86]

The Secretary of State rejected the Straits proposals and outlined his own currency plan:[87] gold would be eliminated as legal tender to ensure that nothing interfered with its accumulation by the Currency Commissioners; the gold reserve accumulated through the issue of notes was to be used to purchase silver when the silver reserve fell below a stipulated minimum; the coining of silver would release the seigniorage profits which were to be placed in a separate Gold Standard Reserve and not the Note Guarantee Fund; the Gold Standard Reserve would 'exist solely for the purpose of ultimately guaranteeing the difference between the intrinsic and the token value of all Straits Settlements dollars, whether in active circulation or in note reserve'.[88] The authorities ignored the Straits view that, not only did the existence of this depreciating metal weaken their gold standard but there was no need at all for a silver circulation or silver reserves to be part of the Straits currency system.

Colonial opposition to investment in British Government securities

Towards the end of 1907, the Straits Government criticized the London authorities for investing the whole of the Currency Depreciation Fund in depreciating Consols and recommended that the Crown Agents be given the same discretion in regard to the investment of the Depreciation Fund, as was allowed them in regard to the other investments of the Currency Commissioners.[89] In the correspondence that ensued, it was revealed by the Crown Agents that they had complained in 1902–03 about the almost exclusive purchase of British Consols. They had also then argued that there was no need for a separate Depreciation Fund, which was absurdly invested in exactly the same class of depreciating securities as the main Investment Fund.[90]

The evidence also indicated that the proportion of currency reserves allowed to be invested in securities of other colonies, declined in the period. When the Straits note issue had been originally established, all of the securities could have been invested in Indian Government securities. By 1906, amendments were stipulating that not more than a half of the investment portion of the Note Guarantee Fund could be in the securities of the Indian Government. While in 1904, more than a third of the Investment Fund had been in Indian paper,[91] by 1908 only a negligible amount was in Indian Government stock, while most of the remainder were in Consols and other British securities.

Colonial opposition to gold reserves in London and investment rules, 1908–09

In 1908 when the gold reserves in Singapore became low, London suggested that this supported the idea of keeping Straits gold in London rather than in Singapore.[92] This was unanimously opposed by the Singapore Chamber of Commerce and all the major banks who argued that redemption of notes in London was not only inconvenient but also was more costly for note holders who did not want gold or sterling in London as they lost 5/16th pence by telegraphic transfer plus the cost of importing gold back to Singapore. Holding gold in Singapore increased confidence in their currency and since gold was imported from various countries chiefly for the purpose of balancing international trade, it was only 'right and reasonable that gold so imported should be held [in the Straits] for re-export to various countries in the event of an adverse balance of trade'. Contrary to what was claimed by Nelson (1987:69), these Straits holders of notes wanted gold in the Straits for regional trade and not just for speculation in India, which in any case was caused by imperial authorities' own restrictions on the free flow of gold to India.

The authorities forced through changes in policy by using their official majority to amend the Note Ordinance in 1908, despite the opposition of all the Unofficial Members of the Straits Government: the clause giving the Currency Commissioners discretion to give gold in exchange for notes was deleted; while the Note Guarantee Fund was previously required to be held in the colony by the Currency Commissioners, the amendments enabled the Fund to be held by the Crown Agents in London; with a half of the Note Guarantee Fund required to be in coin, it was stipulated that one third of the coin portion should be silver; and whenever the silver coin portion of the Note Guarantee Fund became less than one sixth of the Note Issue, part of the gold portion was to be used to purchase silver for minting into current coin, with the whole of the profit being paid into the Gold Standard Reserve.

Rules were stipulated for the investment of reserves in London: while the Investment Portion of the Note Guarantee Fund had been allowed to hold up to a half in Indian Government securities, the Gold Standard Reserve was only investible in gold securities approved 'from time to time by the Secretary of State', and used to redeem notes only with the permission of the Governor; whenever the Depreciation Fund was less than 10% of the Investment portion of the Note Guarantee Fund, the profits of the latter had to be paid, not into General Revenue as was possible before, but into the Gold Standard Reserve; then and only if the Secretary of State was satisfied that the funds in the Gold Standard Reserve were sufficient to cover the difference between the bullion value and the face value of all silver coins held by the Commissioners, might the annual payments into the Gold Standard Reserve be paid into the General Revenue; and the General Revenue of the Colony was to bear the ultimate liability for redeeming Straits dollars.

Another amendment required the Currency Commissioners, when issuing or redeeming dollars for sovereigns paid or received in London, to charge a margin to cover all costs of remitting the equivalent sovereigns from London to Singapore even though there was no intention of sending any gold to Singapore at all. The Singapore Chamber of Commerce, and Unofficial Members of the Straits Legislative Council, complained that this would not only lower the dollar's effective exchange rate from the legal rate, but would also check, if not completely stop, the import of gold for the purpose of balancing international trade. They argued that this effective tax on all notes issued or redeemed in Singapore contradicted all the principles of free trade and penalized investors in the Straits who had done so on the basis of belief in Government intentions to stabilize the dollar at 2s.4d.

By the end of 1908, the Straits Government strangely made a number of conservative recommendations, around the same time as did the governments of India and other colonies, strongly suggesting a 'pump priming' by the 'invisible imperial hand'.[93] The Straits Government now argued that the proportion of their reserves in securities should not be more than a third, and at the most, two-fifths, while the gold proportion should be increased to 50%.

But the Treasury, while approving the creation of the reserves in London, now objected to them being held against the note issue.[94] They dubiously claimed that 'a gold reserve held in London would have no appreciably greater efficiency towards securing the immediate convertibility of notes circulating in the colony than have readily realizable securities'. They stipulated that, for 'the local convertibility of the notes' a minimum of one third of the coin reserves be held locally as legal tender silver coin, irrespective of the amount of the gold reserve in London.

The Treasury argued that as the sovereign did not circulate in the Straits, it would be of little value for 'securing the convertibility of the notes in the event of a panic' and therefore concluded that the sovereigns ought not to be part of the Straits coin reserve. They also advised that the Currency Commissioners should have the powers to purchase silver in anticipation of the reserve falling below the minimum, rather than having to wait until the reserve had actually fallen below the required minimum.[95] The Treasury then changed buying and selling margins for the Straits dollar to ensure that the Currency Commissioners would be buying and selling sterling in London, instead of buying or selling gold in the Straits. The justification was that the 'disadvantages of accumulating gold in Singapore, where no alternative use can be made of it, would thereby be avoided'.[96]

The Colonial Office agreed with the Treasury that the gold should be kept in London[97] 'because gold cannot be utilized at Singapore and because it is liable to be raided for use in other countries... [and they were] against any pretence of keeping gold in Singapore which could be used on a commercial scale'. The Colonial Office therefore informed that they were instructing

the Straits Currency Commissioners that they should adopt minimum rates against gold in transit, 'to keep it from coming to Singapore ... [so that] there would be little or no temptation to send gold from Australia to Singapore. If, nevertheless, we do get it there, we must send it home'. Thus Nelson (1987) was wrong in thinking that the exchange margins for the Straits dollar were set to expedite a genuine gold standard in the Straits and to allow gold to go the Straits. The Colonial Office also informed that the final solution was derived from the India Office who had 'wandered up all sorts of blind alleys before they found their solution, which [was] right in theory and works out in practice'.[98]

Following a 1909 meeting between the authorities in London, the Colonial Office sought clarification from the Treasury whether it would oppose Straits gold which had been received for notes issued by the Crown Agents, being lent out at call in London, since this needed a change of ordinance.[99] The Treasury strongly objected, pointing out that this would be[100] 'at the expense of the general gold reserve of the United Kingdom, which [was], in the opinion of many persons amongst those who [were] most competent to judge, already far from adequate to the commercial needs of the country'. The Treasury warned that the Straits would export currency to meet foreign indebtedness not only to the United Kingdom, but to other countries as well and this would affect the actual movements of specie between London and other commercial centers. They argued that a Colonial Government which 'adopting for its own convenience, an arrangement which depends for its effective working on the free market for gold existing in London, ought to do something at any rate towards maintaining the actual reserve of specie on which that free market depends'.

Within the Treasury, an internal Minute by Hawtrey had advised that it would be[101] 'very wasteful' to keep the whole of the un-invested reserve in specie, since the sum to be held at call should be limited to the largest amount likely to be demanded in one telegraphic transfer. Using the crisis of 1907–08, Hawtrey thought that the gold standard would be quite safe even if only £50,000 were held. Since it would be wasteful to sell securities in a crisis, Hawtrey advised that the Straits, given their unimpeachable securities, could always borrow at lower cost, especially from the banks with which they left their deposits. The authorities accepted none of Hawtrey's sensible recommendations.

The Treasury 'advised' that the working balance of the Gold Standard Reserve Fund of the Colony should be held by the Crown Agents in the form of actual specie, and not as bankers' money or cash at call. The Crown Agents would be allowed to invest up to a half of the gold received for notes issued, in securities. Should the need arise, the Crown Agents should borrow against the securities instead of realizing them. Under these arrangements, the Treasury assured that the balance of the fund would 'probably remain undisturbed for lengthy periods'.[102] Under the Treasury's rules, even the

Gold Standard Reserve would not actually be used for the purpose of maintaining the Straits' gold standard.

The Treasury view prevailed, as usual. The Colonial Office informed the Crown Agents that while it had been 'originally contemplated that the Note Issue Gold Reserve would be held in Singapore, and in that case the Gold Standard Reserve would (or, at any rate, might) have been held there also', the Gold Standard Reserve would now be maintained in London.[103] A half of the gold reserve was to be held liquid at the Bank of England[104] and the other half lent out at call.[105] By the beginning of 1910, the Straits Government was also docilely agreeing that 'the Colony should encroach as little as possible on the general gold reserve of the United Kingdom' and that half of the note issue gold should be held in actual specie.[106] Imperial interests had won out over colonial interests.

The 1910 Straits Government Memorandum and policies, 1910–12

In 1910, the Straits Government once more renewed its opposition to the Treasury's insistence on silver reserves,[107] pointing out that the Government notes had steadily displaced the silver dollar, especially after the issue of the one-dollar notes. By 1910, notes in circulation were four times the amount of silver dollars.[108] They pointed out that not only was this preference for notes part of the universal pattern, but as in Hong Kong, the Straits public were fully aware that the standard dollar was only a 'promise to pay', like the note.

Most importantly, the Straits again pointed out the fundamental weaknesses in using silver dollars in a gold standard reserve: 'As the dollar has ceased to be an international coin ... we cannot contract our circulation by giving out dollars for notes, and the larger the proportion of dollars we maintain, the weaker our reserve becomes, and the more liable we are to have to sell securities at a time when others are doing the same and the price is therefore low'. A reserve of silver dollars was therefore useless in case of a panic due to causes affecting the credit of the Government, and the only practical use of a silver currency was to be in a position to meet an expansion of the silver currency without having recourse to minting. But, given the colonial preference for notes, they saw no need to maintain one-third of the Note Guarantee Fund in silver coin, and even a fifth would be more than ample.

Soon after, the Straits Government questioned the Treasury advice that the colonial redemption of notes might be from funds lent at call or short notice and the specie reserves drawn upon only when the latter were exhausted.[109] They prophetically pointed out that in a few years they would have considerable sterling currency reserves, which would be drawn upon only when there was a high Bank Rate and a drain of gold to London. To call in their

short loans then would worsen the stringency in London Money market and the drain upon the Straits Currency Commissioners unless it were thought 'desirable to assist the Bank of England to make its rate effective by reducing the supply of call money in the market', suggesting an acute colonial awareness of ulterior imperial motives.

The 1910 Straits Government Memorandum

Towards the end of 1910, clearly dissatisfied with the existing currency arrangements, the Straits Government sent an extensive and extremely cogent memorandum, asking that their whole currency legislation be reviewed, and raised many issues which not only had relevance for the currency board system, but which would be re-debated by academics 40 years later with little historical awareness of the earlier debate.[110]

The memo pointed out that, while the Straits was required to have 110% reserves, other countries had much less: the Canadian Government note issue effectively had only 62.5% backing in gold and securities, while its token silver had no backing at all; Japan's total gold reserve against its note and silver circulation was only one-third; Britain maintained no special reserve against their subsidiary silver coin which was unlimited legal tender throughout West Africa and West Indies; and Java and Netherlands Indies, which also had a gold standard without a gold circulation, had no reserve against their silver currency. The memo concluded that nowhere where a currency depended on scarcity for its value, was the gold-cash or bullion reserve more than one third of its fiduciary circulation of coin and paper. Moreover, if deposits and other liabilities were taken into account, the effective reserve in these countries was even less.

The memo stated that the Straits' currency reserves would only be reduced if there was a reduction in the active circulation, which ought to determine the amount of reserves needed, and not the total note issue. It was pointed out that the Indian rupee, in its worst crisis of 1908, reduced its note and coin circulation by a mere 5%.[111] In the Straits' own recent crisis, their active circulation had contracted by less than 12%. The memo argued that, since there was an absolute minimum limit to the currency necessary for the ordinary business purposes of the community (the 'hard core' in the academic debate), an immediately available reserve of 20% of their total circulation would be sufficient to weather any probable crisis without entrenching on their investments. The memo thought even this was probably an over-estimate since a complementary reduction of 20% in wages, retail prices and bank deposits was quite unlikely in the Straits.

It pointed out that, since their existing silver dollars were useless for settling an adverse balance of trade for which only gold would be demanded, their immediately available reserves in gold and money at call should be between 20 and 30% of their total circulation. The less than useful silver reserves should be not more than 20% of their note issue and while they

and the leading bankers in the Straits felt that even this proportion was still unduly high, they were accepting it merely out of deference to the British Treasury.

The memo argued that, since the circulation was unlikely to contract they should strengthen their reserves by increasing the proportion invested, while reducing the coin reserves. They also pointed out, as would Keynes for India, the irrationality of having different reserves labeled 'gold standard' and 'note issue' since both could be used for the purpose of contracting circulation and supporting exchange.

The Treasury response to this comprehensive and convincing analysis of the Straits currency system was feeble and contradictory.[112] They insisted on the holding of silver reserves although they admitted that the local dollar was of no value in securing the stability of exchange. They argued that since the sovereign did not circulate in the Colony to any considerable extent, the 'sole object [of the silver reserve] was to secure the local convertibility of the note into legal tender specie', totally ignoring that the silver tokens were not acceptable internationally except at reduced bullion values.

To the memo's argument that their coin reserves were excessive the Treasury asserted that while it might appear 'improbable that one third of the notes in circulation should concurrently be presented for presentation, their Lordships' experience of what has happened in other parts of the world in times of unreasoning panic' suggested that it would be imprudent to reduce the coin reserve below that proportion. They gave no examples where this had occurred. The Treasury made the minor concession that as long as the coin reserve at Singapore was not allowed to fall below a third, the proportion kept in silver could be reduced to one fifth of the total notes in circulation.[113]

Forced investments in British Government securities, 1911–12

The 1906 disagreements over the investment of currency reserves in British Government securities, continued till 1911. When the Colonial Office finally agreed to limit purchases of Consols for the Straits, their instruction to the Crown Agents stipulated that thereafter they were to keep Consol investments up to one-third of the total investments.[114] In 1911, more than 40% of the investments of the Currency Commissioners was in Consols, which had depreciated from their nominal values by 20%, as compared to a depreciation of 9% in other securities.[115] While minimum proportions were being stipulated for British Government securities, limits for non-British securities were reduced. In 1911, while London agreed to allow the Gold Standard Reserve to be invested in gold securities of the Indian Government, they were limited to not more than one quarter of the fund.[116] The proportion previously allowed in the Note Guarantee Fund had been 100% in 1899, reduced to 50% in 1906. In moving from the Note Guarantee Fund to the

Gold Standard Reserve, the investment pattern was therefore also being changed from non-British to British securities.

Other changes took place in 1912. On instructions from the Secretary of State, the Currency Reserve was split into a 'liquid' and an 'investment' portion. The liquid portion was required to be at least two-fifths of the gross note circulation – not the active circulation, as the Straits Government had recommended. At least a quarter of the liquid portion was to be kept as silver dollars in the Straits. If the proportion fell below this, the liquid portion was to be used to buy silver for coining, with the seigniorage profits going back into the liquid portion. The remainder of the liquid portion was to consist of gold coins, Bank of England deposits, treasury bills, cash on call or other short-term readily realizable securities approved by the Secretary of State. The investment portion was to be invested in securities approved by the Secretary of State.

The investment policy of the Straits had one accidental anomaly, which negated a fundamental rule of the currency board system. It was discovered in 1913 that, contrary to the currency ordinances, the Straits currency reserves held large amounts of its own Straits sterling securities bought by the Crown Agents. Rather than sell these securities, the Straits Government introduced legislation to permit such holdings. The Crown Agents also purchased significant amounts of Federated Malay States securities. Until 1936, except for Consols, total holdings of Straits stock formed the largest single holding of the Investment portion of the currency funds. King observed that 'although this broke all currency reserve principles, nothing violent seems to have happened in consequence'.[117] Yet this safe experience and precedence was not used to generalize the practice to other colonial currency funds, whose legislation and rules specifically banned investment in own colonial government securities, and even those of other colonies.

The currency experience of the Straits needs a more intensive study with many anomalies to be explained than can be addressed here. While the currency reserves were invested in London in order to increase their earnings, they depreciated to a mere 65% of their value between 1907–09. This and other periods of depreciation required the Straits to pay out of General Revenue in order to maintain the required cover for the currency and it was not until 1926 that the colonies received any payment from the currency reserves.

Conclusion

Imperial currency policy in the Straits mirrored currency policies in India and other colonies. Despite the metropolitan demonetization of silver, Britain legalized the massive importation and circulation of depreciating non-British and British dollars, for which they refused to acknowledge any liability in gold or sterling. These were ultimately all demonetized and

replaced by yet more silver dollars, which were part of the supposed 'gold standard' recommended by the Straits Barbour Committee.

It might have seemed incongruous that the authorities wanted to demonetize British-minted trade dollars, since they could not have been over-issued like the non-British dollars. However, it should be remembered that replacing British dollars by 'Straits Government' dollars also would have replaced British liability to redeem their own silver dollars by a liability on the Straits Government. The authorities' objectives throughout seemed to be to minimize British liability for any currency they had circulated previously while the Barbour Committee held the Straits Government to be liable for the redemption into gold of British trade dollars as well.[118]

Contrary to the views of Drake and King, the currency priorities of the London authorities had little to do with the trading requirements of the Straits, since they paid no heed to the principle of currency area. The authorities recognized that exchange stability with the metropole was being established at the expense of the currency area of the local merchants who were expected to shoulder the burden of exchange instability. As with imperial policy in ignoring the currency area of the rupee in East Africa, the imperial lack of concern for the dollar currency area in south east suggests strongly that there is room for a comprehensive multi-country research examining the impact of these colonial currency changes, on regional trade, colonial modes of investment, production and consumption, and the differential impacts on local and foreign interests in the colonies.

There has been doubt in the literature as to what the authorities intended to establish in 1903, and what actually evolved between 1903 and 1914. King (1957) and Nelson (1987) argued that the currency reformers had not intended a gold exchange standard but a full gold standard dollar with Currency Commissioners buying and selling gold in the Straits.[119] Drake, on the other hand, thought 'that the government had no intention of adopting the gold exchange standard', that the giving of sovereigns for dollars 'was contemplated as soon as a sufficient supply of gold could be accumulated', but what evolved in practice was a sterling exchange standard.[120]

Drake thought that while dollars could originally have been issued or redeemed for gold in the Straits, the authorities recognized that buying and selling sterling in London was simpler and cheaper than shipping gold to Singapore or drawing gold from the Currency Commissioners in Singapore.[121] King (1957:16) argued that this then led to 1908 legislation which allowed the currency reserves to be held in London by the Crown Agents 'in the expectation that most of the Commissioners' exchange business would be transacted by the buying or selling of T.T. on London rather than the buying or selling of gold in Singapore'. World War I, and the dangers of shipping gold, then forced the authorities to completely reject the gold standard and undertake merely to buy and sell sterling in London, for dollars in the Straits. Thus King concluded that the Straits dollar was

on a gold exchange standard when sterling was on gold, but on a sterling exchange standard when sterling went off gold.

This chapter has shown, however, that the accounts by King, Drake and Nelson were completely wrong in many respects, including the idea that the Straits Barbour Committee wished to establish a gold standard or even a gold exchange standard. From the beginning, the Barbour Committee and the authorities were insistent that they did not wish gold to either circulate, or be held as reserves in the Straits, despite the strong demand for gold from both indigenous and British commercial interests. Much of the currency legislation was precisely to ensure that gold sovereigns were not exported to the Straits either from London or other sources such as Australia. The authorities' explicit fear was that gold in the Straits would be exported to other countries in the region and thus become unavailable to London. The Straits Government even disregarded imperial instruction, and used the gold reserves in the Straits to support the Straits exchange, according to the original justification for the reserve. King was wrong in arguing that, although the Straits Currency Commissioners kept part of their currency funds in London, 'the burden and significance of this was exactly the same as if the gold had been kept in Singapore or the securities domestic'.[122] The imperial authorities well recognized that this was not the same.

The imperial creation and justification of the Gold Standard Reserve had obvious contradictions. The authorities issued notes in exchange for gold, which were then used to purchase silver, which was finally coined into tokens. The seigniorage then went into the Gold Standard Reserve in order to guarantee the difference between the nominal and bullion values of the silver tokens. Rational opinion saw no reason to purchase silver at all, given that the clearly revealed preference of the Straits people and government was for gold coins, or notes convertible into gold, rather than silver coins. While the accumulation of the Gold Standard Reserve was implemented through the gold received for notes, the Gold Standard Reserve could not be used to redeem notes.

It might be thought that, as long as the dollar was freely convertible into sterling in London, and hence into foreign currencies, there did exist full convertibility for the local holders of the dollar and there should not have been any barrier to trade with non-British territories. This presupposes that the double conversion charges were not significant,[123] and that the indigenous traders (mostly non-English speaking) had no difficulties in operating through London rather than directly within their own region. The evidence is clear that the authorities objected to Straits dollars being converted into gold in the Straits. Since they also refused to allow colonials to freely have sterling in the Straits, the Straits dollar was not identical to sterling either, and even the term 'sterling-exchange' standard does not accurately describe the Straits dollar.

Nelson (1987:48) was therefore incorrect in presenting the policy alternatives as the gold standard or the gold exchange standard, which he thought 'ultimately prevailed'. This chapter has shown that the Straits Barbour Committee and authorities wished to ensure that for non-European Straits residents, the only convertibility would be from notes into inconvertible silver tokens. It is only this which explains the paradox that, while the authorities talked of creating a 'gold standard' system, they insisted on full legal tender silver dollar tokens for internal circulation, and the holding of minimal proportions of silver in the gold standard and paper currency reserves.

Drake and King had claimed that because the natives might not accept a drastic change in currency, the authorities wished to maintain the same unit of account and 'the same money in circulation' in order to switch from the silver standard to the gold standard unobtrusively.[124] King thought that the coin portion of the Note Guarantee Fund kept in the Straits had been designed for nothing more than a silver dollar-paper transfer and 'to provide the need for the token coins which were, until 1938, full legal tender'.[125] Oddly enough, the Straits Barbour Committee's claim that the natives might not have preferred gold to silver was also contradicted by King who has pointed out that the silver dollars were not popular because they were tokens and that the people knowing this, 'showed an intelligent preference for the government currency notes'.[126] Drake had also pointed out that the silver coins were superfluous, while the notes had popular acceptability.[127]

The imperial authorities had to overrule the colonial government and commercial interests, who had rationally argued that the internationally demonetized silver dollars were useless for international payments and supporting exchange; and, moreover, they were less than useful for the reserves, even as bullion, due to their continuously depreciating value. But one explicit imperial objective was to ensure that in crises in the Straits, these dollars could not be exported but retained in the colony. We recollect from Chapter 3 that the authorities had exactly the same expectation when enforcing British silver tokens in colonies, 80 years earlier. The evidence from the Straits suggests, moreover, that without silver dollars, the authorities would have had to allow a circulation of gold or redemption of paper currency into gold.

To this end, it seems that the authorities correspondingly discouraged low denominations for paper currency circulation, despite all the evidence that the colonial public – both expatriate and local – desired to replace the silver dollars with notes. The authorities rejected the most rational solution of a paper currency backed purely by gold reserves, possibly out of fear that, if the silver dollars were shown to be completely redundant, then notes would have had to be converted into gold. This would have required gold reserves to be held in the Straits, reducing the reserves in London. It has been shown that one major objective of the authorities was to create gold reserves with the Bank of England, with some minimum proportion as gold coins, even if earning no income, and unavailable for supporting the Straits exchange.

The explicit justification was that the Straits should contribute its share of the gold reserves necessary to maintain liquidity and convertibility of the pound in London.

As in India, there were existing elements in the currency system which the authorities found undesirable and gradually eliminated. Under the earlier Note Guarantee Fund regulations, the currency reserves could be held as gold in the Straits and used to redeem notes there, while the invested portion could be invested completely into Indian Government securities, although the proportion was limited to 50% by 1906. When the Note Guarantee Fund was superseded by the Gold Standard Reserve, the automatic rights of convertibility into gold in the Straits was removed and investments in Indian Government paper was further reduced to a quarter. In 1911, despite colonial opposition, the currency funds were required to hold a minimum of a third in British Government Consols and by 1912, the Secretary of State was given total discretion to direct the investments. Because of a historical accident, the Straits currency reserves also included Straits government securities, without any damage to public confidence whatsoever. This was denied to other colonies.

It was clear that the authorities in both London and the Straits recognized that it was extremely unlikely that more than 20% of the active currency in circulation (notes and coins) would ever be presented for redemption into gold or sterling, completely undermining the imperial demand to have 110% external reserves backing the colonial currency. This concept of the 'hard core' would be re-debated 40 years later, with historical amnesia by the imperial authorities.

One of the objectives of the imperial authorities was to set an exchange rate for the Straits dollar which was higher than that demanded by colonial interests. This negates a popular view which persists in the literature (see Greaves, 1953) that colonial currencies were just sterling by other names, with exchange rates being irrelevant. The exchange rates were a strong bone of contention when these currencies were being created, with clear implications for trade patterns, even if they were largely not changed relative to sterling thereafter (with the exception of Fiji).

As in other colonies, imperial policies were implemented through committees of inquiry, whose recommendations were opposed by even the British economic interests in the Straits, as well as the indigenous commercial interests. Ultimately, the London authorities simply overruled the Straits Government and its very rational objections to imperial currency policies.

Major manipulations of the Straits currency reserves took place in 1902–03, 1906 and over 1908–09 – all periods of liquidity crises in the London money market, with concurrent currency manipulations occurring in India. Central to all the imperial policies were the opinions and decisions by the British Treasury and behind them, the Bank of England.

6

Establishment of the West African Currency Board and East African Anomalies

Introduction

Chapter 3 indicated that, the during the latter half of the nineteenth century, the imperial authorities eliminated most international currencies and gold coins circulating in British West Africa, by undervaluation or demonetization, and, despite colonial opposition, replaced them with British silver tokens. Through an arrangement between the authorities and the Bank of British West Africa, the British silver tokens were landed at face value in the colonies, giving London the benefit of the seigniorage profits. The profits increased rapidly when silver depreciated following the 1871 metropolitan demonetization of silver, becoming more than a half of the face value of the coins, by the beginning of the twentieth century. A request from Lagos, that the seigniorage profits be used for colonial development, was rejected in 1897, although the Treasury suggested that they could have access to the seigniorage profits if they took complete responsibility for their own currency.[1]

The West African colonial attempts to take responsibility for their own currency may be examined by an analysis of the 1899 Barbour Committee of Inquiry into West African currency, the imperial rejection of a 1907 colonial proposal for a note issue for Nigeria, imperial responses to currency issues in East Africa, and the 2012 Emmott Committee of Inquiry which preceded the establishment of the West Africa Currency Board (WACB). The Emmott inquiry is important for this study because the WACB was supposedly used as the model for other British colonies, with most academic analyses of the currency board system taking the Emmott Report at face value. This chapter suggests that the report was not consistent with the evidence given to the inquiry by commercial witnesses.

We present an account of numerous policy disagreements between London and the colonies, and between the Colonial Office and the British Treasury,

as evidence that the rationalization as articulated in the Generalized Misconceptions in Chapter 1, however intuitively plausible, does not correspond to the historical facts nor convey the real objectives of imperial authorities in creating the currency board system. The disagreements and imperial rationalization are shown to be similar to those in the Straits Settlements and India, outlined previously. The 1899 Barbour Committee Report had several recommendations, which would not fit in with imperial plans, and the report was shelved.[2]

Rejection of the West Africa Barbour Report, 1899

When the 1899 West African Barbour Committee was appointed, its terms of reference stated that the Treasury had no serious objection if the West African colony wished to 'adopt a token coinage of their own, any profit on which would belong to the colonies concerned'.[3] The Barbour Committee was asked to 'discuss and report upon the feasibility of replacing British silver coinage in West Africa by a colonial silver coinage, the steps which would be necessary to effect such a substitution, and the probable effect of the proposed change on trade'.[4]

The WA Barbour Committee considered three alternatives: to retain British silver without sharing the seigniorage profits with the colonies; to retain British silver, with the colonies sharing the profits; and, to introduce a distinct silver coinage with all the profits going to the colonies. The Barbour Report concluded with two proposals. The Majority recommendation was for the establishment of a special West African silver currency, with half of the seigniorage profits going towards a gold reserve and the other half to colonial government expenditure. The second proposal, which the report argued against, conveyed the overwhelming desire of the metropolitan commercial interests in British West Africa, for a continuation of the British silver currency with the colonies sharing a half of the seigniorage profits.

The WA Barbour Report stated that gold coins did not circulate to any considerable extent in the British West African possessions without mentioning the heavy hand of the British authorities in the previous decades in undervaluing the foreign coins.[5] It stated, without any explanation, that although the legal monetary standard was gold and Britain itself had a gold currency, the currency of British West Africa in the foreseeable future 'must, even with a gold standard, consist almost entirely of overvalued silver coins'.

The WA Barbour Report saw that with the opening up of West Africa, there would be a growing demand for British silver coins being absorbed in West Africa with very little being returned. The committee expected a 'very considerable' seigniorage profit to be made. Contrary to the accepted view of one justification for the elimination of British silver, the report

clearly stated that[6] 'under the existing system, the currency of the British West African possessions is, for practical purposes, absolutely secure from depreciation'.

However, the report argued that, while the British silver was maintained at its face value only because it could be returned to England, if the amount returned became large relative to the total circulation in Britain, they would 'depreciate in value unless the British Government were prepared to face the loss of calling in as many of them as were not actually required as circulating medium'. The report claimed it was therefore not possible for the colonies to continue with British silver. The original promises of full redemption into sterling had all been forgotten.[7]

The WA Barbour Report recommended the establishment of a new colonial currency of the same weight and fineness as the British shilling, which would be made full legal tender. It stated that if the new tokens replaced coins of full metallic value, as in Britain, it would have 'no hesitation in rejecting any proposal to that effect'.[8] However, since the currency had to consist of overvalued silver coins, it concluded that there was not the same objection to replacing one token (British) by another token (colonial).

The report recommended that to maintain the security of the new coinage they would need to provide a gold reserve which would be used to redeem in gold, at the nominal value, 'any quantity of overvalued coins issued under it'.[9] However, the report argued that because[10] 'only a small proportion of the silver currency issued is likely to be returned for conversion into gold in any one year', only half of the profits of coinage be put into the gold reserve, leaving half for colonial expenditure. The Committee advised that the amounts set aside for the reserve might in the future be reduced also because[11] 'the special currency would be supported by the credit of the British West African possessions'.

The committee recommended that the gold reserve be kept in West Africa 'to issue in exchange for the new coins if such coins should be presented and gold demanded'.[12] When enough gold had accumulated, a certain proportion could then be invested in liquid securities. Foreign coins still circulating would be demonetized except for the five-franc piece of the Latin Union.[13] The committee calculated that the seigniorage profits would be approximately £116,000 annually, out of which some £58,000 would become available for expenditure among the colonies. They felt that, while this might not have justified changing the currency,[14] the profits would soon grow far beyond that amount because they expected a growing demand for coin for an indefinite period.

Nevertheless, because of the opposition of British interests in West Africa to a new currency, the committee recommended that a viable alternative was that the British silver be retained with the seigniorage profits to be shared equally between the colonies and the Treasury. The Committee thought that the British Treasury would still be 'retaining a substantial

profit ... [which would] be amply sufficient to meet any risk of large quantities of coin being returned to the Mother Country in future years ... [and] this arrangement would be more economical than the issue of a special West African Currency, for under it the loss due to the retention of a special gold reserve would not be incurred'.[15] With the representatives of the British Treasury and the Royal Mint saying that this last alternative was outside the terms of reference given to the committee, the latter acknowledged that the Treasury could have 'considerations which might not be before us which may be sufficient to justify its rejection'.[16]

The minutes to the inquiry reveal that the British trading and banking interests were totally opposed both to the committee's articulation of the problem and its recommendations. They saw no reason why there should be an over-issue of British silver,[17] nor why it should flood back, nor why Britain should not redeem them in any case, having received full value for them. They also feared that a new colonial currency would lead to a breakdown of what was then a rapidly increasing trade across imperial boundaries, because it would not be as acceptable as British silver. Other imperial powers were already discounting British coins.

While most witnesses thought the colony should be given the seigniorage profits, the committee argued that British silver was absorbed only because the Africans either hoarded or melted it down; therefore the profit could only be derived from those natives, who were 'so ignorant of the true value of silver that they [were] prepared to pay for it more than double its worth'.[18] All were agreed that tokens which were being used at their face value to buy goods, should be received back only at their intrinsic gold values.[19] There seemed to be no objection from the committee to deception of the African natives.

Colonial governments in British West Africa opposed Barbour's recommendation for a new colonial West African currency on similar grounds.[20] The Acting Treasurer of Sierra Leone deprecated the unnecessary waste involved in burdening the West African colony with the expense and liability of creating a new silver token currency which could not be exported to discharge debts due in England. He pointed out this was especially burdensome since these colonies were then contracting large sterling obligations and the silver coins would be as wasteful as the India rupee.[21]

The committee's proposal for the continuation of the British silver, with the colonies sharing the profits, was rejected outright by the Treasury. It claimed that, in supplying British token silver to the colonies, the imperial Government assumed liability for its redemption.[22] If these liabilities were regarded as absorbing one half of the annual profit and if they surrendered the other half to the colonies, Britain would 'in effect, retain no share of the profit at all'. The Treasury refused to share any profits with the colonies in case the colonies might demand more currency for themselves as well as other parts of Africa. The Treasury therefore stated that they felt 'constrained

to adhere to their original decision'. The Treasury also pointed out that, even if a new currency was created, with half the profits going to a gold reserve, the net profit available to the colony would be 'substantially less than the Colonial Office seemed to think'.[23]

Rejecting the alternative Barbour proposal, the Secretary of State decided that the Barbour Committee's proposal to introduce a special silver currency must be abandoned because it was doubtful 'whether a sufficiently large increase in the rate of absorption of silver coin (i.e., its permanent withdrawal from circulation by loss, hoarding, or conversion into jewelry) [could] be relied upon to assure the financial success of the scheme'.[24] He also stated that he did not wish to disregard the growth of the use of gold coin on the Gold Coast and in Lagos.

Rejection of the Nigerian note issue proposal, 1907–10

In 1907, South Nigeria proposed a government note issue patterned on the Straits note issue, but based on British silver tokens.[25] Nigeria asked for one-third of the reserves to be in coin and two-thirds in investments, while the notes were to have denominations of £25 down to £10. The Secretary of State however rejected the proposal with the odd argument that cash transactions must precede a paper issue, that natives who were not thoroughly conversant with the advantages of coins would not be likely to derive much benefit from a note issue, and that the notes seemed calculated to replace gold rather than silver.

The Nigerian Colonial Government responded, that the only reason why gold coins did not circulate was because the authorities had artificially made it more expensive to import gold rather than silver, while 'imperial monetary experiments' 15 to 20 years previously, had forcibly replaced the plentiful circulation of gold by silver.[26] The Colonial Office stated that the Treasury would object to Nigeria having the same proportions of coin and investments as in the Straits reserves. They sent the 1894 Mowatt Memorandum, which had originated from the Treasury in response to previous colonial proposals for note issues, and which clearly indicated that most of the elements of the currency board system had already been decided upon by this date.[27]

The Mowatt Memorandum advocated that notes should be issued in exchange for a 'standard' coin; securities could quite safely be held against the 'hard core' in the note circulation which was 'practically never presented for cash, even in times of restriction or of panic'; in the absence of firm estimates they recommended a coin reserve of two-thirds reduced to a half by experience; the securities held could be of the United Kingdom or any other colony except the same colonial government; the income from the securities would be added to a Depreciation Fund, to pay off imperial loans, with the remainder going to General Revenue; and, the Secretary of State should be given powers to 'sanction investments in other securities with a view

to most speedy conversion of such securities into cash, and to authorize the acquisition of *token coin* in lieu of investment'. The Memorandum had also thought that the reserve requirements they were imposing on colonial government note issues would be too burdensome if imposed on *private* banks.

The Treasury now stipulated that half of the coin portion of the Note Guarantee Fund should be maintained as gold coin[28] but refused to limit the legal tender of silver, strangely arguing that with the 'advance of trade and civilization the inconvenience of a medium of exchange consisting solely of overvalued token coins would of itself bring about an influx of gold, and ... establish the currency upon a stable basis without Government interference'. The Treasury directed that the Currency Commissioners would issue the silver tokens only for gold: if silver fell below one-half in the Note Guarantee Fund, new British silver coin would be purchased from the Royal Mint; to ensure that gold and not silver was exported to Britain in a recession, gold in the Fund was not to be invested in securities until it had reached adequate dimensions; notes were to be issued indifferently against either gold or silver, but in the early stages gold would be paid out only within limits; the lowest denomination of notes was not to be less than £1; to ensure that silver was not brought into Lagos from other African possessions, they were to consider a joint British West African note issue; and while the Colonial Office had complained that because of the 10% margin to the reserves, there was no need for an extra Depreciation Fund, the Treasury insisted that the wide fluctuations and temporary inflations in prices of gilt-edged securities meant that a reserve of 10% on maximum market values was not an adequate provision against depreciation, which needed an additional safeguards.

The Treasury proposal to continue using British silver tokens was opposed by the Gold Coast Government, who asked for a gold currency to expedite their regional trade.[29] They pointed out that Hausa traders demanded gold for its portability, French authorities wanted gold in payment of tolls, and native traders leaving the Colony required money which would be accepted in foreign colonies. Colonial notes would cost them a heavy premium outside. The Colonial Office also disagreed with Treasury, largely because they seemed to accept some elements of the Barbour Report's analysis and conclusions and also some of the Treasury's arguments at face value:[30] they saw no need for a gold coin reserve since gold was not freely circulating in the West African colonies and the Barbour Report had concluded that it was unlikely to circulate; they thought that forcing a gold circulation would negate the note issue while success of the note issue would itself lead to a circulation of gold; the success of the five-rupee note in Mauritius and the one-dollar note in the Straits suggested that in West Africa, the smallest note should not be larger than ten shillings; and they reiterated their objection to a separate Depreciation Fund.

The Treasury then pointed out that the authorities themselves had kept gold out by delivering British silver coins free of freight and insurance[31] and that the object of their proposals was not, as the Colonial Office imagined, to force gold into circulation in the Colony nor would such have been the effect. Any gold reserves would only have been used for export and without such a reserve, if the currency depreciated, the export of coin to Britain would inevitably involve British silver.

The Colonial Office countered that the object of maintaining a reserve of coin against a note issue was to redeem any notes presented for payment. Since both the Treasury and the Colonial Office agreed that gold coin was not an acceptable form of currency in Southern Nigeria, they saw no reason for keeping a portion of the coin reserve in gold. Nor did they see why British silver should depreciate, or any reason not to have notes of less than £1 in value, since the very point of having a note issue was to circumvent the inconvenience of using heavy metallic coin as a means of exchange.

The Treasury was forced to become more explicit about their objectives in colonial currency policy.[32] First, they pointed out that the existing currency regulations were to enable the authorities to 'issue it locally in exchange for gold at its face value, not to furnish a cheaper source of supply'. They finally explained that their use of the overvalued silver tokens was intended to ensure that no gold would ever be imported into West Africa and the token silver in circulation would be permanently depreciated to the extent of the freight and insurance on the imported coin. But if the supply of silver was kept up, exchange could drop to a point where there was a risk of an export of coin to Britain, and in the absence of any reserve in gold, the coin exported must necessarily be British token silver. The colonial monetary system therefore had to be changed precisely in order to guard against this last danger. The Treasury recognized that if their proposal was adopted, gold would again become slightly cheaper to import than silver but stated that 'this objection could ... be met by an allowance by the Mint of the difference in cost towards the freight and insurance of silver coins supplied by them'. Thus, British silver would continue to be supplied at a cheaper rate than gold, as before.

The Colonial Office replied that they had an agreement with the Bank of British West Africa, which had been given the privilege of importing silver coin and charging the public a levy of one % as a setoff against an obligation to receive all coin paid in by the Governments. The Colonial Office would not abrogate the agreement since this would involve changing the entire currency and banking regulations of the Colonial Governments. They still saw no need for any gold reserves.

The Treasury again asserted that an undue import of British silver could not be prevented; that had they been consulted about the agreements with the Bank of British West Africa they would not have approved since they objected to allowing a particular private firm the privilege of obtaining

legal tender currency; and they rejected the Colonial Office proposals for not having gold reserves with the facetious argument that they could not 'discriminate between the two forms of legal tender' (gold and silver) and could not 'decline to cash notes in whichever form of legal tender might be preferred by the person presenting them'.[33] This last justification was extraordinary, given that the imperial authorities had rigidly opposed bimetallism in Britain and her colonies.

Hopkins (1970:126–7) had thought that the impasse was created because it was 'rather late in the day' that the Treasury asked for a gold reserve; that the Treasury did not want to reinforce silver as the 'effective basis for West African currency', but wanted to place 'silver-using parts of the Empire on a gold basis' and a new West African currency 'on gold in accordance with the fundamental principles of British monetary policy'. Hopkins thought that to this end they 'insisted that steps should be taken to establish a permanent local parity between gold and silver (by placing a charge on silver equal to that payable on gold) before the note issue could be sanctioned'.[34] Hopkins had concluded that the Nigerian note issue was not established because 'establishing a gold basis meant revising the terms on which currency was supplied to West Africa, and this change ... was being blocked at the Colonial Office'. But this section has shown that the proposal was rejected by the Treasury because they objected to a real gold standard, and were unable to force through their irrational requirements for an unnecessary gold reserve in London. The evidence from the previous chapters and what follows suggest that Hopkins' rationalizations were wrong in all respects.

With the Colonial Office refusing to agree to the creation of gold reserves in London, the imperial authorities eventually resorted to another committee of inquiry, which finally achieved their objectives.

The West Africa Emmott Committee Report, 1912: ignoring the witnesses

The Emmott Committee was appointed to inquire not only into the desirability of introducing a new colonial currency into British West Africa but also 'to advise upon the measures necessary for the better regulation of the existing currency in the event of a special coinage not being adopted'.[35] The latter terms of reference were totally disregarded by the committee.

The Emmott Report noted that the Barbour Committee had considered three alternatives: to retain British silver without sharing the seigniorage profits with the colonies; to retain British silver, with the colonies sharing the profits; and to introduce a distinct silver coinage with all the profits going to the colonies. The report incorrectly claimed that the Barbour Committee was so convinced by the second alternative, that they did not fully consider the first and third alternatives.[36] The report interpreted the first alternative into two others. It argued that, if British silver continued to circulate, then the

imperial Government could either encourage the use of gold and restrict the legal tender of silver, or the British silver currency could remain of unlimited legal tender but be backed by a reserve of gold or securities. The report incorrectly claimed that the witnesses they had examined were 'unanimous' that the time was not ripe for the first possibility.[37] While the report admitted that most of the witnesses and even some members of his Committee would have preferred a continuation of the British silver with a gold reserve, it wrongly claimed that 'to elaborate a scheme on these lines would lead the committee beyond the scope of its reference' and rejected the scheme.[38]

The report then argued that, with the increasing proportion and absolute amounts of British silver being absorbed by the Colonies in general and West Africa in particular,[39] if the colonies were allowed a share of the seigniorage profits they would import even more. Any contraction of the colonial currency would then lead to British silver flooding back to England. Disregarding the historical assurances given by the imperial authorities, the report claimed that there was no liability on the British Government, or the Bank of England, or the joint-stock banks to redeem the British silver in gold. Hence Britain's currency would either depreciate or the losses would be passed on to the holders of such coin: a situation 'fraught with dangers to the communities there and at home'.

The report stated that Australia had also asked for a share of the seigniorage profits but had been refused by the previous Chancellor of the Exchequer (who had become the Prime Minister by the time of the Emmott inquiry), whose views had to be accepted by the committee as conclusive. The report therefore recommended the remaining alternative, which they incorrectly claimed was the only option which would allow the colonies access to the considerable seigniorage profits and which had been 'generally appreciated and shared by the mercantile community': the replacement of British silver by a new silver currency, supported by adequate reserves of gold and securities.[40]

The report argued that, because natives preferred silver to gold, because it was impractical for gold to circulate, and because gold did not circulate in British West Africa, there would be no 'pressing and immediate need for a gold circulation in West Africa', especially if Government Notes were introduced and became popular.[41] The Report paradoxically advised that, while the British sovereign should remain legal tender and the ultimate standard of value, the eventual removal of barriers to the importation of gold should be 'kept in view'.

The Report stated that the new system should be a source of 'considerable ultimate profit' to the colonial governments concerned, although initially all profit from the coinage should go to the currency reserves in London. Holders of the new currency and also of silver coins of the United Kingdom should have the legal right of redemption in London only. The coin portion of the note reserve should at first amount to not less than three-fourths of

the note issue. The terms of issue for notes should be the same as for coin, except that notes should be held against silver coin of the local currency as well as against sterling. The Governments of British West Africa should bear the ultimate liability for all obligations of the Currency Board, as well as providing the Currency Board with initial funds.

The contrary evidence to the Emmott Committee

The actual minutes of evidence given by witnesses to the Inquiry reveal almost general opposition to the analysis and conclusions of the committee, as well as its fundamental contradictions. A key plank in the committee's argument for replacing British silver and rejecting the numerous recommendations for its continuation, was that Britain had no legal liability to redeem the silver tokens they had forced into British West Africa and that the Treasury would never recognize such an obligation.[42] Yet, when witnesses demanded that the British silver be continued, with the seigniorage profits being shared with the colonies, the committee also claimed that 'the contingent liability to maintain British sterling silver at its present exchange value [was] one which must rest upon the Imperial Government, and that the sterling-using Colonies [could] bear no share of its liability'.[43] The Committee contradicted itself again, by insisting that colonies must redeem British silver.[44]

Not only did the commercial witnesses feel that Britain had both an economic and moral liability to redeem their own British tokens, since they had enjoyed all the seigniorage profits till then, but a Colonial Office witness pointed out that the 1907 Memorandum had acknowledged that the shilling 'was initially a promise to pay a twentieth of a sovereign on demand'.[45] He therefore took it as 'beyond controversy that the Treasury would not hesitate to accept at face value any reasonable amounts that the governments put in from time to time of the old British silver'.[46] Chapter 3 has also shown that, when the British silver had been originally enforced on colonies, the authorities had given the full guarantee of redemption into gold. Yet Britain continued to deny this liability.

Most witnesses doubted whether there would ever be any long-term flood of British silver back to Britain. The Colonial Office representative observed that a very large proportion of silver in a prosperous community would remain 'as fixed ... as if it was actually melted down or hidden in the earth. Nothing short of a cataclysm of trade could ever bring it back for redemption'.[47] The Treasury however pointed out that Britain might be[48] 'compelled to keep a gold reserve ... (or) take out of active circulation a certain number of silver coins with the consequent loss of interest on money and the cost of storage, or possibly still worse, it might be necessary to demonetize and sell a portion of the silver currency as bullion on a falling silver market'. Yet all these disadvantages necessarily also applied to the new colonial silver currency they were imposing not just on West Africa but all other British colonies.

The Emmott Committee wrongly claimed that continuation of British silver was outside their terms of reference.[49] It is clear from the minutes that the Colonial Office and the committee recognized the Treasury and Cabinet as the ultimate authority on colonial currency matters. The Treasury reminded the committee that the 'decision that if a Colony desire[d] to obtain the profit it must undertake the liabilities of coinage' had the highest authority of the British Government and the Prime Minister personally.[50] When asked by the committee whether the West African Colonies had better inaugurate the new system quickly, the Treasury representative answered that, from the point of view of the colonies, he had an 'open mind [but] from the point of view of the Imperial Government ... the sooner the change from sterling to local silver currency [was] made the better'[51]

The evidence indicates that, with commercial interests in West Africa wanting the continuation of British silver currency, there had to be a lever to change to a new currency. When the Colonial Office was asked by the committee why the need for a special colonial currency, the reply was[52] 'In the main the reason is a regard to the tremendous amount of profit which has accrued to the Imperial Treasury ... [but] the first object is to secure the absolute convertibility of silver into gold on demand.' Both these reasons were contradictory. When the committee asked whether the suggestion really came from the Colonial Office, the evasive Colonial Office reply was 'you may take it as that'.

The same Colonial Office representative had earlier pointed out that Britain properly had the liability to convert their silver tokens into sterling or gold. Witnesses also informed the committee that it was a 'rather pious proposal on the part of the Treasury that Britain had for years turned out all that silver without creating a reserve fund and now they were telling the West African colonies that they could have their own special currency, but must have a reserve fund'.[53] The seigniorage argument was also pointed out to be contradictory. The Committee itself elsewhere in the inquiry had reminded the Colonial Office representative that in India where a similar currency system had been in force for 18 or 19 years, 'a very small amount indeed of profit has been available for general administrative purposes'.[54]

Virtually all the commercial and banking interests who wanted a continuation of the British silver recognized that it had become a regionally accepted currency with a rapidly increasing circulation, which would do more to foster trade throughout Africa than a purely localized West African shilling.[55] It was pointed out that Mohammedan traders, who knew that the British silver was everywhere expanding its circulation, and even across German territory, would 'be against the coinage becoming localized instead of being Imperial'.[56] British silver coins circulated in non-British territories even though they had not been declared legal tender, and despite the charging of duty by other imperial powers.[57]

The Minutes of Evidence reveal that, contrary to the report, the committee was fully aware that Africans preferred to hold gold rather than silver, both as a store of value and as a universal medium of exchange, but were denied access to gold. On the question of the preferred location of the reserves, the committee asked witnesses whether they were aware that there were 'intelligent natives' who did not wish to transfer funds to Britain, who knew that a sovereign was worth a sovereign while a shilling was not worth sixpence, and who were 'now hoarding gold in preference to hoarding silver ... clearly [indicating] that those natives ... appreciate the value of gold, and know that it is a safer thing for them to hoard than silver'.[58] Witnesses agreed that Africans generally preferred gold to silver. Instead of burying manillas, as they used to, they were now burying sovereigns, which retained their whole value when dug up.[59] Both the witnesses and the committee acknowledged in the inquiry that gold did not circulate in West Africa only because the authorities prevented gold from being sent to West Africa by sending silver free, and because Africans were denied access to the preferred gold.[60] The Committee of Inquiry discouraged witnesses who advocated a gold circulation in West Africa by reminding them that if an African 'hoarded'[61] gold or turned it into ornaments it would be 'an economic loss, inasmuch as gold is worth its face value, and the silver which he is now content to hoard and turn into ornaments is worth only 50% of its face value'.

It should be noted that imperial authorities everywhere accused colonial peoples of 'hoarding' as though it were an economically irrational, antisocial act to be discouraged through currency policies. The evidence here shows that the colonial preference for gold was based on a very rational preference for any currency which was superior in terms of the accepted functions of money: as a medium of exchange nationally and internationally, as a store of value, and as a means of deferred payment.

The committee also warned that, if gold circulation were allowed, gold would become unavailable for export to redeem notes of expatriates, as was indicated by the British experience in the East.[62] The Bank of British West Africa not only agreed with this policy but stated that they assisted this policy by charging Africans more for gold than they did Europeans.[63]

The committee was not averse to asking leading questions. While stating that metropolitan merchants wanting to remit their funds to Britain would have an absolute guarantee to redeem the special currency into gold, they asked witnesses whether the same guarantee should hold in Africa – especially to wealthy Africans whose inability to obtain gold at all times might have a 'very dangerous effect' upon the circulation of the new silver coin.[64] Some witnesses were reminded that 'a facility for converting silver coin into gold in West Africa would not in effect benefit merchants and others desiring to get rid of redundant cash supplies'.[65] Not surprisingly, witnesses agreed to the proposal, although some thought that the guarantee should apply in Africa as well but only for Europeans. Some pointed out that, unlike their

Eastern possessions, it was very doubtful if West Africa would ever 'become the permanent place of residence of a white population'.[66] This was a theme which would profoundly affect the levels of investment and development paths of white settler colonies and colonies dominated by natives.

Some witnesses were aware of the implications of the currency proposals for the London money market. They advised that, while all Africans preferred gold and all the gold that came from West Africa could be used there, what the Treasury, the Bank of England and the committee had to consider was whether it was a 'good thing that £50 millions should be hoarded in West Africa in gold' especially when the withdrawal from circulation in Britain of a mere £10 or £15 millions was a 'very serious matter'.[67] Those that weren't aware of this implication were reminded by the committee of the need for adequate reserves in London 'in case of a contraction of trade in West Africa, and a desire on the part of merchants to transfer capital from West Africa home'. When the Chairman of the African Association attributed the colonial monetary problems to Treasury imprudence he was informed by the Chairman that the Treasury had a number of reasons for keeping the reserves in London, which he could not go into, and that 'the Treasury view [was] the right view'.[68] Having got most witnesses to agree that the currency reserves should all be kept in London, the committee then got them to agree that it was therefore 'not necessary to give the right to any holder of West African silver to demand gold in exchange for silver locally'[69].

To establish the required level of reserves in London, some witnesses were informed that the Treasury's reserve conditions had 'practically become standardized' in the colonies.[70] Others were informed that, according to the considerable experience of the Colonial Office in India, they knew that the percentage of reserves needed to provide for a bad year was very small and asked whether they should keep similar proportions.[71] Not surprisingly, the reply was that, because the West African merchant brought home any surplus assets, and either on giving up business or in a panic (which might be 'probably thirty or forty years ahead') transferred all his assets home, there would be a need for a much greater proportion of gold reserves than in India.[72] There was no mention of the significant conflicts between the Treasury's reserve conditions and what colonial governments and the Colonial Office regarded as rational currency reserves policy in either India or the Straits.

The West African Currency Board was eventually established, with the following characteristics: the colonial currency would be based on local silver coins as 'standard currency'; backed 110% by gold and sterling reserves in London; some of the reserves were invested in securities, usually those of the British Government; there was an additional 10% of the reserves kept as a Depreciation Fund to guard against the depreciation of the sterling securities; and responsibility for the management of currency reserves supposedly

lay through the Currency Commissioners, Currency Boards and the Crown Agents, to the Secretary of State for Colonies.

Contrary policies in East Africa, 1911–12: rejection of the Gold Standard and Indian rupee area

Concurrent currency developments in East Africa are relevant because of the existence there of a strong currency area based on an active circulation of Indian silver rupees, both internally and with adjoining non-British territories, and the rare colonial situation of an abundant supply of gold. The East African situation was also unusual in that, unlike other colonies, there were available large supplies of gold sovereigns, which were being offered for notes and could clearly have been the basis of a proper gold standard currency. As in other colonies, there was a also a strong body of expertise which voiced very rational opposition to the proposals of the British Treasury, for whom the needs of local trade were clearly subordinate to their own priorities for London.

In 1911, London expressed concern that the Currency Office in East Africa was refusing to issue Indian rupees to the Standard Bank of South Africa who were tendering British gold sovereigns.[73] East Africa explained that their stock of silver was depleted and they were under no obligation to exchange notes for gold sovereigns.[74] Soon after, the British East Africa Corporation complained that the reserves of the Currency Office consisted only of gold, and that there was a grave shortage of Indian silver rupees, which could only be obtained from the National Bank of India with a commission, or obtained at high cost from India. They recommended that if the seigniorage profits on the rupee could accrue to Uganda, this would pay for all the costs of importing rupees from the Indian Mint.[75]

The National Bank of India also complained that the silver rupees, being the standard coin of East Africa, were absolutely necessary if that year's large crops were to be financed[76] and advised that since the sovereign did not circulate, there was no need to maintain half their reserves in gold. They recommended that the Currency Office should refuse to exchange notes for gold unless they were prepared to import rupees by exporting sovereigns to Bombay, with the necessary double payments for insurance and freight.

The Standard Bank of South Africa opposed both these views,[77] complaining that despite their advances in gold to settlers, neither the latter nor the Colonial Government kept accounts with them, while the Currency Office refused to accept the legal tender gold sovereigns, except at a 20% discount. The Standard Bank pointed out all the economic advantages of the full adoption of sterling based on a circulation of gold sovereigns: there would be a stable currency; there would be no need to control exchange since foreign payments could always be met by the import or export of the internationally recognized sovereign; and it would cheapen the cost of

production and reduce the cost of living. On the other hand, Indian rupees cost 2% to land in Mombasa, could not be used for foreign trade, and were unpopular with whites, who thought in pounds. The Standard Bank was supported by the British Cotton Growing Association, who requested the West African system of British silver, and whose seigniorage profits, they pointed out, would go to the British Mint rather than to India.[78]

The Treasury deprecated the refusal to freely issue notes against gold and argued that with the trade of British East Africa tending towards sterling-using countries rather than India, it was 'essential to retain the sovereign as the effective standard of value'.[79] They advised that steps should be taken to encourage the circulation of the sovereign or of notes covered by gold, while limiting the legal tender of Indian rupees to 20 or 30 rupees. However, in contradiction of their recommendation for the encouragement of the sovereign[80], they also proposed a new East African rupee (silver coins and notes) which would be issued against gold in London, to circulate concurrently with the British Indian rupee, which would then become a subsidiary coin.[81]

A locally established East Africa Protectorate Currency Committee[82] saw several disadvantages to the Treasury's proposals: limiting the legal tender of the Indian rupee would lead to distrust and dissatisfaction amongst the natives and Indians; the African farmers would be unable to pay his debts, the Government would suffer hardship since they would not be able to dispose of the nearly 1.5 millions in rupees they received from the Africans every year; and it might be difficult to maintain its par value or to prevent its divergence from the Indian rupee.

The Committee rejected the seigniorage argument, pointing out that as the Treasury had themselves claimed with British tokens and the Indian rupee, 'there would be no profit available for ordinary purposes, as any profit on minting must be set aside and held as a guarantee for the purpose of maintaining the coins at their nominal value'. The Committee thought that the easiest solution would be to set an upper limit to the gold reserves, beyond which they would refuse to accept gold for notes. If this was not acceptable, then they should accept the Treasury proposal for a special East African rupee of unlimited legal tender, with the seigniorage profits going into a Guarantee Fund.

The Colonial Office then inexplicably advised the Treasury only of the committee's second alternative,[83] while agreeing that the existing gold reserves were to be used to issue silver but thereafter, the Currency Commissioners could issue either notes or silver in exchange for gold paid locally or for gold paid in England; and notes would be redeemed 'either in gold or by telegraphic transfers on London'. The Colonial Office clearly saw gold being paid and received locally in East Africa.

The Treasury agreed to the Colonial Office proposals and offered to draft the new rupee system, under which the sovereign would also be made a standard coin of the Protectorate.[84] However, they advised that, while

the rupees issued by the Imperial British East Africa Company would be redeemed under the new system, to convert already circulating Indian rupees into sterling in London would be 'far beyond the existing resources of the Currency Board'.[85]

The Treasury proposals met with opposition from private interests as well as Colonial Government officials in East Africa.[86] They argued that the new rupee would 'prevent the modeling of the currency on British sterling lines'; create a fluctuating exchange rate like the special German East African rupee, and disrupt trade with neighboring non-British territories because it would circulate only within the two Protectorates. By contrast, the rupee was accepted currency throughout British East Africa, Uganda, Zanzibar, and German East Africa. Uganda. With detailed calculations[87], the Colonial Office also pointed out that, given all the Treasury's reserve requirements 'profit to Government as one of the advantages of an East African rupee [could] be dismissed as a very remote contingency'. Other Colonial Governments also voiced their opposition to the scheme being proposed by the authorities.

The Treasury informed the colonial governments that they did not under understand the proposed system whose new rupee would be as good as the British Indian rupee, and which could be expanded without loss and contracted by giving out gold in London or East Africa.[88] The first two claims were questionable, and giving out gold in East Africa was never supported by the Treasury. The Secretary of State pointed out that the new system would at least allow them to freely accept sovereigns, claiming that 'any discrimination against one form of legal tender in a Government transaction is objectionable in principle, besides causing inconvenience in practice'.[89] Colonial governments were advised that they 'should also themselves be responsible for the proper supply and maintenance at par of over-valued coins allowed to circulate within their own territories', instead of distant governments (London, presumably).

The Secretary of State emphasized that currency should be issued at rates sufficient to prevent gold being sent to East Africa, and while gold would be given out in East Africa only in so far as their reserves allowed them to, there would be no automatic right to convert rupees into gold locally. Colonial fears that the new system was unlikely to engender much profit was dismissed with the argument that 'even if no profit accrued to the Government from the introduction of the special rupee, this would not be a conclusive argument against its introduction, which is advocated primarily on other grounds'. East Africa was also advised that 'from precedents in other countries, the most severe contraction of currency is not likely to exceed 10 percent., of the coins issued'. But, even if the contraction was as great as 33%, there would be adequate reserves of gold and securities. Moreover, the currency withdrawn 'could be sold as bullion or retained until normal conditions returned and the coins were again required for circulation'.

London admitted that the existing difficulties could be solved within the existing system but argued this would mean rejecting the gold sovereign. As to colonial criticism that the new measures would not in fact be popularizing gold sovereigns, the Secretary of State maintained that 'whatever [might] be the result of the proposed change as far as popularizing gold is concerned, it will remove the difficulty of issuing rupees or rupee notes against gold'. Any scheme for continuing with the rupee could be 'dismissed from consideration, for reasons which need not be elaborated'. There was also 'no prospect of British silver coinage being introduced into East Africa, nor if such a step were taken, would there be any possibility of His Majesty's Government consenting to allow the Protectorate any share of the seigniorage of such coinage'. He ignored the colonial requests for the introduction, not of British tokens but sterling proper with gold sovereigns.

By the end of 1913 the imperial proposals were well on the way to acceptance, although East Africa complained that while the Colonial Office had previously stated that the new East Africa rupees could be exchanged for gold locally at par, the draft Order in Council did not provide for this specific exchange.[90]

Mwangi (2001) saw the British East African currency problems as essentially an imperial struggle to control the colonial space, with the protagonists being the British government, the white settlers, the Indian commercial interests, with the majority African population totally marginalized, in deciding between the historically circulating Indian rupee, East African rupee or the East African shilling. From the beginning, British colonialism treated East Africa as an annex to India, and built using Indian commerce, artisans, labor, capital, lower level administrators, and essential human resources such as policemen, to assist in the control of the colony. Britain encouraged Indian migration to East Africa not as coolies, but as colonists and settlers. Indians came before Europeans, built the Uganda railway, owned most of the trading wealth and were British subjects, and wanted to be treated like Europeans; as, for instance, in White Highlands.

The rupee was the vehicle for Indian demands for equality with whites, and control of East Africa by British India, not the Colonial Office. 'The Indian rupee was the internal medium of account for the colonial administration in East Africa. Taxes to the colonial government were paid in Indian rupees. African labor was valued and paid in Indian rupees…. [yet] The Indian rupee, almost overnight, went from being the coin of conquest to being a fugitive currency – policed, condemned, banned, hunted, and eventually exiled.' The Imperial British East African Company tries to impose its own rupee, but failed miserably. It could not raise taxes from the Indian commercial interests who claimed tax exemption as British subjects and dealt in their own currency.

Interestingly, the rupee mediated between other African currencies rather than replacing them, and hence was 'subversive of the colonial state',

according to Mwangi. The rupee was used by Africans as a store of value: between 1906 and 1921, of 100 million rupees entering circulation, a half were hoarded, not to be returned into circulation.

Mwangi concluded that the EACB new money was intended to emphasize that 'the East African Protectorate was a singular, bounded, homogenized place with London as a primary economic and political referent'.

Delayed by World War I, the East African Currency Board (EACB) was not constituted until 1920. The Board lost more than £1,500,000 in demonetizing and converting the British Indian and German rupees. Consequently, its reserves as a percentage of currency outstanding did not rise above 50% of the nominal currency in circulation until 1940, and it did not pay any surplus to the colonial governments until 1952.[91]

A practical rejoinder to the imperial demands for the absolute necessity of 110% cover for colonial currency, the EACB right up till the 1940s, survived perfectly well with less than 50% sterling reserves and only in the Great Depression, when the proportion fell to 10% did the colonial governments have to make a provision for a loan should the reserves not prove adequate.

This section on British East Africa not only gives us a much better perspective on currency policy in West Africa but also brings out the essential unity of British imperial currency policy throughout her colonial Empire, regardless of the pre-existence of currency areas based on other coins, or the abundance of a circulation of gold. We have seen that even though it was eminently feasible, given East Africa's close connections with gold-producing South Africa, the authorities were totally opposed to a genuine gold standard based on British sovereigns which would have completely integrated the colonial monetary standard to Britain's, as strongly demanded by some colonial interests.

The authorities paid no heed to the principle of currency areas, such as those based on the British silver or Indian silver rupees, and wished to eliminate other British colonial currencies which they treated as foreign and inconvertible, despite the existence of ample sterling reserves to back them. They did not expect significant seigniorage profits to result from the new currency scheme they were recommending, and they explicitly saw seigniorage profits as unimportant. Lastly, their explicit expectation was that it would be extremely unlikely for more than 10% of the currency to be contracted and redeemed into sterling: their insistence on establishing more than 100% sterling cover for the colonial currency was clearly not based on currency principles.

Contradictions in the West Africa Emmott report: correcting the generalized misconceptions

The evidence of the last chapter has shown that the general arguments which have been accepted in the literature for the creation of the currency

board system had no substance in historical reality. Contrary to the accepted view, the authorities recognized that West Africans preferred gold not silver, because of gold's superiority as medium of exchange and store of value. British silver therefore circulated in West Africa only because the authorities deliberately eliminated all gold currencies[92] and ensured that British silver was cheaper to obtain.

Hopkins, analyzing the Emmott Committee's opposition to British silver circulating in West Africa had argued (1970:105) that the 'anomalies arose from the fact that the regulations governing the use of silver tokens had been framed during the first half of the nineteenth century and referred, understandably enough, solely to the United Kingdom. No one had envisaged, still less planned, that sterling silver would assume a different character once it reached exotic African shores'. Chapter 3 showed, however, that the introduction of British silver tokens as full legal tender to the colonies had been deliberately planned, with the full expectation that its token character would ensure that it would not return to Britain.

Most authors by and large accepted the arguments by the authorities that the Emmott Committee had been set up because there had been a danger of over-issue of British silver tokens, which might have resulted in inflation and depreciation in the colonies. Hopkins did point out however (1970:108), as had Newlyn and Rowan, that no one spelt out exactly how excessive amounts of British silver could be forced into circulation in the colonies when the British Mint and authorities were ultimately in control.

The argument that the British silver could also eventually return to Britain, thereby causing inflation and a depreciation of the British currency, was also without foundation.[93] Previous chapters have shown that even at the turn of the century, there was no real expectation by the authorities that the British silver in the colonies would ever flood back, even if there was a crisis in the colony. On the contrary, there was explicit recognition of the 'hard core' principle that most of the currency would be needed for the purely local circulation needs, and at most 12% might ever need to be redeemed. Even this was expected to be temporary because there was every expectation that the West African economies would grow in the foreseeable future.

Hopkins (1970:107) had argued that the authorities feared that in a severe economic crisis, 'gold might have to be made available to support West African silver since the latter had no reserve of its own. This action would be necessary in order to prevent the token currency depreciating and also to ensure that the colonies could continue to discharge their sterling liabilities'. But this argument was itself invalid since what was being replaced was not West African silver but British token silver which had originally been guaranteed convertibility by the authorities. Moreover, both the Barbour and Emmott inquiries, and the authorities, were aware that Britain had originally circulated British tokens with the guarantee of full redemption into sterling and gold at face value.

While Hopkins (1970:107) thought that the British Government had 'accepted an ultimate responsibility for maintaining the value of sterling silver, whether it circulated in the Home Counties or in West Africa', the evidence in previous chapters indicates that the authorities and the Emmott Committee rejected this liability.

However, if Britain was liable for the redemption of the British silver, then it was as meaningless to talk of the returning silver possibly causing depreciation of the pound as it was to suggest that the redemption of pound notes in gold might cause inflation in Britain. This was quite beside the point: while British silver in the colonies might have been a large proportion of all British silver issued, it would have been an insignificant proportion of the British money supply at the time. Thus the view held by Howard (1978:128–29), that one of the reasons for setting up the committee and the currency board was 'was solely to guard Britain against any danger of inflation', is clearly not justified by the historical facts.

Authors were therefore clearly wrong in claiming that a major objective of the authorities and the committee in establishing the currency board system was 'to ensure the speedy and certain convertibility of whatever currency came to be used in West Africa into sterling at a fixed rate of exchange'.[94] The sterling tokens were already convertible into sterling.

Previous chapters have indicated that, while the authorities rejected all liability for the British tokens in West Africa, they recognized that they were physically unable to prevent them from being returned and circulated in Britain. Their continued circulation in Africa therefore represented a potential call on the British gold reserves and also posed a danger of capital loss to Britain, because of the long-term depreciation in the price of silver. It was precisely to prevent this possibility that a new colonial currency, identical in weight and fineness to the British silver but distinct, had to be created through the currency board, even if it equally posed future disadvantages to the colony.

While the colonies recognized the futility and waste in creating yet another token currency with high silver content, and which could not be used in international payments especially to gold standard countries, previous chapters have indicated that that the specific objective of the authorities was that the new colonial tokens, unlike the British tokens, could not be used in international payments. Thus one key imperial objective in creating the new West African currency was that it would be a purely localized currency.

The evidence indicates that metropolitan interests in West Africa, both colonial government and private, were opposed to the introduction of a new colonial currency, which they feared would not be as universally acceptable across imperial boundaries as British silver had been. It was generally recognized that the British silver's area of circulation was rapidly expanding across imperial boundaries and they feared a disruption of inter-regional

trade. While it might have seemed a contradiction that Britain should wish to limit the circulation of its own currency, Howard (1978:34–35) has pointed out that at this point in time Britain feared that if she did not obtain a tighter hold, she would lose her African markets to French and German rivals.

The evidence from British East Africa also established that, whatever their rhetoric, the authorities were opposed to the idea of East Africa having the same sterling currency system as Britain with a free circulation of gold.

The imperial elimination of the regionally circulating rupee from East Africa, as with the elimination of the British silver from West Africa, indicated that they had no adherence to the principle of currency areas either. Moreover, their refusal to treat the British rupee as a gold standard currency fully convertible in London, as had been the objective of building up the massive Indian sterling reserves in London, undermined the whole imperial logic in building these reserves for India.

Hopkins (1970:101) was therefore wrong in concluding that the moves by British colonies towards the currency board system, following the shift towards the gold standard by European countries, could be explained by the fact that the 'interests of the leading Western nations lay in ensuring that the currencies of countries engaged in international trade were soundly based, readily convertible, and otherwise compatible with the working of the gold standard so that world commerce could be conducted and expanded with smooth efficiency'.

It has been shown that all the colonies recognized that this would have been most easily accomplished by simply using the full British sterling currency system; or, as a second best, even the British token silver. Yet the authorities were not only opposed to gold sovereigns (the basis of their gold standard) but they were also opposed to British silver tokens being used by colonies, precisely in order to prevent it from being used in international commerce.

Most authors have concluded that the first objective of the currency board system and the 1912 Emmott Committee was to 'devise a method, acceptable to the Imperial Treasury, whereby the Colonial Governments might obtain a share' in the seigniorage profits.[95] However, it has been shown in previous chapters that neither the authorities in London nor the colonial governments expected significant seigniorage profits from the currency board system or the new colonial currencies being proposed. The authorities acknowledged that the expectation of seigniorage profits was not even a minor objective in the creation of the currency board system. It is therefore no surprise to learn that 'the actual returns were very small' with the Ghana Government, for instance, receiving no return at all from the WACB until 1923, the Straits until 1926 and the EACB until 1952.

The evidence indicates that the most important objective of the authorities was their desire to use colonial funds to create reserves in London.

We argue that the Barbour Report was not implemented because Barbour's recommendations would have allowed the colonies to spend half of the seigniorage profits, with only the remaining half going to reserves. Emmott's recommendations required all the profits to go to the reserve until they had reached 110% of the currency circulation and until a Depreciation Fund worth another 10% had been set up.

Thus Hopkins (1970:128) was incorrect in concluding that the 110% reserves in the WACB were designed to counter 'the danger of overissue'. Howard (1978:129) had also incorrectly argued that in keeping 100% backing for its currency in sterling or British securities, the WACB was 'thus also preventing inflation in the colonies'.[96] The same idea would re-emerge in the 1950s as justification for the continuation of the 110% sterling reserve system.

In previous chapters we showed the authorities' recognition that, if a private bank were required to hold such a 110% cover to its note issue, this would be too onerous, effectively making their capital altogether unproductive. The authorities were therefore clearly prepared to allow more lenient reserve requirements for private note issuing banks[97] with obviously limited collateral. By contrast, the colonial state, with the entire colonial revenue to draw upon, and which was still stipulated to bear the ultimate liability for all colonial currency, was required to bear the onerous reserves burden that the private banks were saved.

Chapter 3 suggested that the Nigerian note issue proposal between 1907 and 1910 was rejected because the Colonial Office and colonial governments were advocating elements which the Treasury found undesirable. First, being modeled on the Straits note issue regulations, the coin reserve requirements were lower than what the Treasury hoped to eventually implement according to the original 1894 Mowatt Memorandum. Second, the colonies were still calling for a gold circulation. Third, while the authorities had clearly decided in 1909 that colonies would be required to accumulate gold specie reserves to specifically help maintain liquidity in the London money market, this was opposed by the Colonial Office. Fourth, the colonies saw no need for an extra Depreciation Fund. Fifth, they were advocating notes of low denomination, which the Treasury opposed.

It is strange that most previous analysts had accepted the Emmott report's claim that gold had never been and was never going to be important in West Africa, and therefore the new colonial currency had to be based on silver. Hopkins (1970:119) thus argued that 'gold was not the most suitable medium for exchange for West Africa or, as Keynes made clear three years later, for other parts of the underdeveloped world'. Yet it has been pointed out that from the earliest times, gold had been produced, circulated and traded in West African countries, whose output had been important not only to their own economies but also to Europe.[98]

Indeed the London authorities had consistently attempted, even before the Emmott Inquiry, to discourage its use in West Africa, as Howard

(1978:127) documents for Ghana where gold, an indigenous currency, was demonetized in 1889, 'apparently to free the maximum amount of gold for export to Britain'. Howard argued that this also then encouraged Africans to enter cash crop production to acquire European currencies necessary for use in the traditional sector. Legislative enactments were used to discourage its supply in Ghana: the African custom of using gold for ornaments was considered irrelevant; no gold produced in the mines could be sold inside Ghana and it was assumed that anyone possessing it had obtained it illegally; while a 1908 law allowed Africans to sell domestically gold won by 'native' methods, the colonial authorities deliberately decided that the 'interests of the Colony would be best served by issuing no official notification to native landowners' of this right.

The Emmott Committee also explicitly set out to ensure that Africans would be denied gold convertibility in the new colonial currency system they were creating, to ensure its export to and accumulation in the metropolis. At no stage did the authorities envisage a gold circulation or genuine gold standard in West Africa and explicitly stated that for the foreseeable future, West African currency would have to consist of overvalued silver tokens. Thus, one implication of this must also be that the creation of sterling reserves in London, rather than in the West African colonies, was designed to deny full and free convertibility of the colonial currency to Africans. Howard (1978:132) pointed out that, while Africans could obtain sterling this was only in London, where an African had few contacts. Howard concluded that, in essence, the African was 'limited to "soft" currency while his European competitors moved easily between "soft" and "hard" currency'.

The converse of this was the creation of the myth of African preference for silver, even though the authorities recognized that the Africans had a very rational economic preference for gold as a store of value and medium of exchange. The authorities explicitly recognized the value to Britain of Africans hoarding or melting down silver tokens whose gold value was a fraction of the nominal values the Africans had tendered to the currency issuers. Thus, for Africans, 'convertibility' would be restricted to silver coins, which the authorities also enforced as major parts of the coin reserves held in the Colony. Paradoxically, the authorities had themselves explained that one reason why they were refusing to allow British silver to continue was that the authorities might be forced to sell the silver coins 'as bullion on a falling silver market'. What they would not allow for Britain was made an inherent part of the currency board system.

But it has also been pointed out by Howard that Africans found it 'difficult to convert notes into the coin they so desperately needed'. The evidence from Newlyn and Rowan (1954:44, 55–57) also suggests that one of the key currency problems in West Africa was that the authorities showed no great desire to satisfy colonial demands for subsidiary coins. From the beginning

of colonial times to the early 1950s, notes were changed into coin at discounts ranging from five % to 40%, inflicting severe losses on African traders, farmers and laborers. Even the objective of 'internal convertibility' of the currency board system was not an important imperial objective.

Hopkins (1970:106–07) had correctly recognized that a major imperial concern was that the 'increasingly international role of sterling seemed to expose Britain's gold reserves to substantial and unpredictable demands', and that the anxieties heightened by the 1890 Baring crisis led to demands after 1900 for a 'war chest' of special gold reserves. He argued that whether or not these anxieties were exaggerated was irrelevant. What was important was that the 'national neurosis' came at the same time as doubts began to be expressed about the soundness of the West African monetary system. The evidence in our chapter shows that it was not the soundness of the West African currency system which was important, but the imperial preoccupation to create reserves in London at colonial expense.

We have seen that the Bank had started securing large deposits from the India Council as early as 1890, and from the Crown Agents at least from 1903 onwards. With effect from 1898, the British Government changed the entire currency policy of India in order to ensure that Indian currency reserves were held in London rather than in India, that they were invested in British Government securities (Consols) rather than in domestic Indian Government securities. Moreover, with each crisis, as over 1905–06 and 1907–08, the authorities made determined efforts to move gold reserves in colonial Gold Standard Reserves, or in Paper Currency Reserves, and even Government cash balances to London.

We have shown that for all the colonies, the authorities attempted to ensure that some part of their gold reserves were held specifically as gold specie, 'earmarked' at the Bank, and explicitly acknowledged to contribute to the reserves required to maintain London's gold convertibility. Because Paper Currency Reserve policies had existed in many colonies well before 1898, the authorities started new 'Gold Standard Reserves' in these colonies. In others like West Africa, the currency board system enabled them to start afresh without having to undergo the same conflicts. It is significant that in 1913 the authorities feared that the Chamberlain Commission in India might bring the Indian system 'more in line with the standard system' which might deprive London of the Indian balances which had been found 'handy on occasions'.[99] The evidence would therefore seem to suggest that the major objective of the currency board system was to bolster the London Money Market, with the other objectives subsidiary.

Given that many of the paper currency reserves before 1900 explicitly allowed the holding of considerable proportions of colonial securities, another significant change introduced by the creation of' gold standard reserves leading up to the formal currency board systems was the increasing discretion given to the Secretary of State in choosing the

sterling investments. Invariably, there was a tendency to invest in securities of the British Government, despite the opposition of the colonial governments and even the Crown Agents. We have documented that the same policy was implemented in a whole range of colonies such as Ceylon[100] the Straits and Fiji in precisely the same period, usually against the opposition of the Crown Agents, the colonial governments and the colonial public. Thus, another major objective in establishing the currency board system was to formalize the use of colonial funds in the preferential purchase of the unattractive low-interest and frequently depreciated securities of the British Government.

So, by the time the Emmott Committee sat its directions and conclusions had already been decided upon by the authorities. Authors have been aware of anomalies in the Emmott Inquiry. Newlyn and Rowan (1954:35) had pointed out that the Colonial governments and British metropolitan interests in West Africa had been quite satisfied with the existing system, the Africans were not consulted and the 'main impetus towards change' came from the Colonial Office and the Treasury, with the trading community persuaded into accepting the recommendations.

Hopkins (1970:127) had also observed that opponents at the inquiry 'were either bullied into agreement with the Treasury view, or else, if their disbelief persisted, ignored'. Newlyn and Rowan (1954:38,39) stated that the Chairman of the committee and its Treasury representative used techniques to frighten the committee members specifically 'into reluctant acceptance of a special West African currency...the whole proceeds of which were maintained in reserve funds of cash or securities'. The previous chapter has shown that very little of the committee's analysis, conclusions and recommendations could be justified by the Minutes of Evidence to the inquiry.

Conclusion

The essential elements of the currency board system were created between 1890 and 1912, a period in which the London money market went from one crisis to another. These reserves crises had a central bearing on colonial currency policies, both in terms of the gold reserves they were required to hold in London, as well as their holdings of undesirable British Government securities. For imperial authorities, the colonial currency systems provided an extremely valuable mechanism to immediately counter reserves crises by mechanisms totally within the control of the Secretary of State for Colonies, not available through their normal London Money market control mechanisms.

Purely for reasons of space, this study has not ventured into the fascinating experiences of other diverse parts of the British colonial empire, such as Ceylon (Sri Lanka), Mauritius and Hong Kong, where similar conflicts also prevailed, including the choice of coin (metal) of circulation, reserves and

local redemption (gold or silver), London reserves policies, and suitability of local currency for unique currency areas. These await other researchers' efforts.

While it might have been thought that many of the undesirable features of the currency board system were due to the exigencies at the turn of the century, the evidence indicates that similar or even more conservative systems would be created in the 1920s, 1930s – and even as late as the 1950s.

Thus, despite the opposition of the local colonial government and Crown Agents on key aspects, the Treasury (and the Bank of England behind them) ensured that when the Cyprus Currency Board system was set up in 1927, there was no investment in local Cyprus securities, the discretionary power of investment of the reserves would be taken out of the hands of the Crown Agents and given to the Secretary of State, gold would be received (and immediately sent to London) but not given out again in Cyprus, the tokens were not to be convertible into sterling, the fund must be made up to 110% of the currency issued before any revenues could be paid to the Colonial Government, and reserves (paying no interest) were to be deposited with the Bank of England.[101]

There is evidence that policy on Ceylon currency between 1931 and 1941 not only showed the features above, but also led to a shift away from the rupee currency area and holdings of Indian Government rupee securities towards sterling and sterling securities, despite internal expert advice to the contrary.[102] The policy changes reflected imperial objectives rather than colonial.

While my original DPhil did not examine the colonial currency policies of other imperial powers such as France and Holland, Rothbard (2002, pp 210–32) has a fascinating account of American attempts to replicate British monetary imperialism in foreign territories they controlled, but based on the US dollar reserves in New York, comparable to sterling reserves in London, for British colonies. Rothbard describes how the leading lights of the American Economic Association,[103] in co-operation with American bankers, foreign investors, and corporate interests in gold and silver, set out to foster similar imperialist monetary systems in Puerto Rico, Philippines, Mexico, Cuba and China. The systems were supposed to be gold exchange standards, but based on dollars deposited in New York. The currencies in circulation would be new silver tokens with the seigniorage also deposited in New York, while the Mexican dollars would be eliminated by several artificial means. In Rothbard's accounts, the American attempts succeeded in Philippines and Mexico, but failed in Cuba because of the American sugar interests there. They also failed in China, which recognized all the disadvantages in the American proposals.

One area that this book has not been able to investigate thoroughly is the precise nature and role of the 'City' at different times they are referred to

in this book, often not specifically enough. Andrew Dilley (1912) *Finance, Politics and Imperialism. Australia, Canada, and the City of London*, c. 1896–1914, while generally supporting the Cain Hopkins theme of 'gentlemanly capitalism', explains the need for a nuanced analysis[104] of the 'City' as a 'highly segmented functioning entity'. This included the Bank of England and the usual merchant banks – such as, Rothschild, Baring brothers, Glyn, Mills, Currie; and several other British joint stock banks – the London and Westminster Bank, for example; but also those not paid much attention previously – underwriting firms and syndicates, such as Robert Nivison & Co. and Marshall Mullens and Company.

The next chapter, on the imperial management of currency funds in London between 1931 and 1957, will show that the imperial objectives discussed in this chapter would again be the fundamental sources of even greater conflict between the Colonial Government, the Colonial Office and Crown Agents on the one hand, and the Treasury and the Bank of England on the other.

7

Conflicts over Colonial Sterling Reserves, Academic Criticisms and Imperial Defense, 1927–57

Introduction

Chapters 4 to 6 have shown that even when the currency boards were being created between 1890 and 1914, there were considerable disagreements between London and the colonies and among the London authorities themselves, as to the supposed benefits and costs. Similar disagreements again emerged during the 1920s, '30s and '40s, when imperial authorities manipulated colonial reserves in London in the interests of the City and sterling, and to provide easy and cheap finance for the British Government. The manipulation of colonial reserves continued for more than a decade after the war was over. The internal debates went a long way to undermining the supposed founding principles of the currency boards, while also establishing that whatever their statutory obligations to safeguard the interests of colonies, the Colonial Office gave in to the pressures from the British Treasury and Bank of England, fully aware that they were safeguarding imperial interest, even if their decisions resulted in financial disadvantage to the colonies. The Colonial Office deliberately deceived colonies to achieve their ends.

The currency reserves of West Africa, East Africa and Palestine were supposed to be independently managed by three London-based currency boards appointed by the Secretary of State.[1] The Crown Agents, subject to instruction from colonial governments, supposedly administered the currency and an assortment of other reserves of smaller colonies[2]. The liquid holdings of all the colonial currency funds (including those of the three London-based Boards) were aggregated from 1928 in the Joint Colonial Fund (JCF), also administered by the Crown Agents for greater efficiency, and for the supposed objective of providing loans to the colonies. Also under the control of the Crown Agents in London were colonial government cash balances, special government reserves and sinking funds, commodity marketing and stabilization funds, government savings bank funds, and others.

This chapter shows, however, that the imperial authorities continuously over-ruled the Colonial Office, the Crown Agents and the colonial governments, usually at the instigation of the British Treasury and behind them, the Bank of England. They created secret 'unofficial rules' which were explicitly in the interests of Britain at the expense of colonies, deliberately kept the colonial governments in the dark or used 'personal confidential interventions' to ensure colonial governments fell in line. Evidence indicates that the Secretary of State for Colonies had assumed authority over both the Crown Agents and the colonial governments as early as 1909.[3]

This chapter also outlines how imperial authorities internally responded to academic criticisms of their policy, which emerged during World War II (WWII) and acknowledged many of the defects of the currency board system. Nevertheless, they fostered alternative academic studies to counter the criticisms. A few influential civil servants also anonymously and openly defended imperial policies through academic publications, despite having internally acknowledged deficiencies in the system. The academic defense of imperial policies was expedited with the assistance of sympathetic prominent academics like RS Sayers, and institutions like the London School of Economics. One civil servant, Sidney Caine, was to later take a prominent role defending imperial policies he had criticized within the Colonial Office. In order to more coherently outline the role of academia and Colonial Office interventions in academia in facilitating the continuation of imperialist colonial currency policies, these sections are placed together towards the end, although the Mars and Greaves saga chronologically coincided with the earlier sections outlined here.

The revision of this chapter has benefited from material in four works which I became aware of after my DPhil was completed in 1988: Tignor (2005),[4] Krozewski (1991),[5] Hinds (1991)[6] and Petter (1981)[7]. While what they covered has been of great value to this study, their studies had an understandable limitation in not being aware of the long term evolution of imperial policies, many of which were simply not visible in their essentially short term chronological treatment.[8]

This chapter outlines how the Bank of England and the Treasury exerted pressure on the Colonial Office to force colonial governments and the Crown Agents to follow policies which they had already managed to implement through the London-based three large currency boards, especially the Joint Colonial Fund which had aggregated all the sterling reserves of the small colonies. Given that these disagreements were evident even in the smallest of these British colonies investigated[9], researchers ought to systematically investigate whether the larger colonies also had these same policy conflicts.

There is first an account of the pressures on sterling and the British Government's objective of raising cheap finance from the London money market, both impacting on the British Treasury and the Bank of England

who saw the colonial reserves as an amenable part of the solution to the imperial problems.

Pressure on sterling, 1931–45[10]

Imperial exploitation of colonial sterling reserves is better understood in the context of the continuing decline of sterling as an international currency, and the need for the British Government to raise cheap loans. Colonies lost in many ways: capital losses with every devaluation; reduced incomes from enforced liquidity of their reserves, restrictions on access to their own funds, and restrictions on borrowing in the London money market.

During both World Wars I and II, holders had to be found for the large increases in British Government monetary liabilities.[11] Sayers (1976:113) documents that the Bank of England was 'terrified by the knowledge that it might be forced, for the sake of government insolvency, to take up large blocks of Treasury Bills or worse still, enlarge yet further the hated Ways and Means Advances'. By 1934, Treasury Bills 'were in permanent use as instruments for continuous borrowing by the central government'.[12] It was also thought that if foreign funds coming and going from London were simply to convert into and out of Treasury Bills, then the 'insulation of the domestic credit mechanism would [have been] perfect'. Colonial funds in London under the control of the Secretary of State for Colonies were therefore easy natural targets for performing this role.

The 1929 stock market crash, and banking crises in 1930 and 1931, eventually triggered the pound's 1931 devaluation, the end of the gold standard, the flight of capital to New York, and the creation of the Sterling Area with protective and preferential tariffs around the British Empire.[13] Sayers attributed the devaluation and the end of the gold standard fundamentally to the 'illiquid position of London as an international financial center', with short liabilities greatly in excess of the gold and foreign exchange reserves in the Bank.[14] The British Government acknowledged the devaluation as an international breach of faith because it wrote off 'unilaterally part of the United Kingdom's sterling debts to other countries and to the Commonwealth in particular', thereby causing grave difficulties and resentment in the rest of the sterling area.[15]

By 1932 the authorities were implementing policies to reduce interest on national debt.[16] The newly created Exchange Equalisation Account (EEA)[17] was used to push sterling downwards.[18] An informal but comprehensive embargo, which was begun on new capital issues, remained for the rest of the 1930s.[19] It led to capital restrictions on colonies but not others. The major objective was the provision of cheap credit to the British Government.[20]

The white settler dominions also benefited, as the Bank of England thought that Britain should continue to be a new source of long term capital for them: the Australian Government was given access in 1932 and New

Zealand was also allowed to borrow secretly from the Bank in this period.[21] Around 1931 and 1932, the Bank was also secretly bailing out other private banks and firms (Sayers 1976, pp 528–33).

By the end of the 1930s, new issues of British Government paper were being rejected by the London money market, forcing the Bank to acquire them and sell at a loss.[22] By 1937, with growing fears of war and flight of sterling to New York, the authorities saw the urgent need to ensure that funds were retained in the London money market and that interest rates did not rise. By June 1937, the Bank had prepared a 31-page memorandum 'War Measures' for discussion with the Treasury.[23] With the British Government facing severe difficulties in borrowing, it was decided to give it first claim on the resources of the capital market, under informal compulsion if necessary, through the Philips Committee on the Control of Savings and Investment. The authorities closely monitored colonial holdings, which were not just a sizeable part of the Empire holdings but were in complete control of the imperial authorities.[24] When war broke out in 1939, most of the non-British members of the sterling bloc went off sterling, but to ensure that the 'pound's international monetary functions [were} preserved', exchange controls were imposed on all the sterling-associated countries, rather than around United Kingdom alone.[25]

As British Government expenditure expanded, the supply of Treasury Bills grew rapidly. A conversion attempt in early 1940 found about a third of the old stock not converted.[26] Although financial institutions were asked to ensure that all fresh money and sums in their control should be placed in Government securities[27] the Bank still had to take up more than the 300 million pounds offered. As in the 1930s, to reduce the burden of the Government's National Debt, as well achieve other national economic objectives, interest rates were reduced on floating debt, Treasury Bills, Treasury Deposit receipts and on medium and long-term securities. Three-fourths of all savings resulted from interest rate changes to the short term Government securities[28] towards which the imperial authorities had moved colonial currency reserves.

World War II also led to vast increases in the money supply and a severe decline in the ratio of Britain's foreign reserves to national monetary liabilities. Between 1937 and 1949, gross international reserves as a proportion of money supply fell from 50% to 12%, and as a proportion of imports fell from 81% to 21%.[29] During World War II, British sales of investments had realized a mere 1.1 billion pounds while the UK short-term liabilities to India, Burma, the Middle East and the colonies were more than two billion pounds.[30] Poverty-stricken India and Egypt, who alone were owed some 1.5 billion pounds, were opposed to British suggestions that part of their claims should be written off.[31]

From as early as 1943, when it had become clear that United States would become the world's dominant financial and economic power challenging

Britain's imperial preferences and colonial markets, the British authorities saw a need to 'secure continuing acceptance of sterling as an international asset'.[32] At Bretton Woods, while Keynes' plan sought to minimize the role of gold, United States called for a return to gold convertibility.[33] The 1946 Anglo-American Financial Agreement required UK to allow all sterling area countries complete freedom to use their current earnings of sterling which were thus to become convertible into dollars while discriminatory controls on imports from dollars/sterling areas were to be ended.[34]

Powerful elements in the City had however successfully campaigned against the cheap money policy and the authorities were unable to stop big holders from unloading, as some did in 1947, 'millions of pounds' worth of government securities in a single day'.[35] It was felt that, in order to control the long term rate and sustain national credit, the Treasury should be able to order a minimum percentage of the large investors' funds to be held in gilt-edged securities: the public hint of the possibility of raising such a percentage would then at once lower the gilt-edged rate. What the authorities could not achieve with private British investors was freely imposed on the Crown Agents who were managing colonial funds. Within months of convertibility being declared in 1947, Britain's creditors broke their gentlemen's agreement and Britain lost more than $1 billion in gold and dollars, requiring bilateral controls once more,[36] although colonial currency reserves had always been controlled. In 1949, there was another devaluation of sterling.

In this period there was considerable pressure on Britain from the Independent Commonwealth which still held sterling reserves they did not require, but were increasingly inclined to hold their own gold and dollar reserves.

Conflicts over colonial sterling reserves and Joint Colonial Fund, 1927–45

Cyprus, Straits Settlements, Gibraltar and Fiji: 1927–33

It is useful to outline the several cases to do with these colonies, not just for what they reveal about imperial acknowledgement of deficiencies in the currency board system and the dominant influence of the Bank of England, but because two of the key Colonial Office officials involved, Gerard Clauson and Sidney Caine, would two decades later, take opposite stances and have prominent roles in defending the same system they were criticising earlier.

In 1927 discussions over the Cyprus government note issue, the Treasury advised the Colonial Office that 'gold should be accepted locally in exchange for notes but should not be paid out again.. .[and] any gold in possession of the Cyprus Government should be shipped to the Crown Agents for disposal'.[37] They advised that the Crown Agents must be guided by the Secretary of State in deciding what proportions would be held in cash, liquid securities, and longer dated securities. Colonial Office protests

at these instructions[38] and their pleas that the Straits was allowed to invest in local colonial government securities were overruled by the Treasury.[39]

Out of the blue, the Treasury informed the Colonial Office that with Bermuda, Malta and Jamaica they now needed 'a model ordinance for sterling exchange colonial currencies' and suggested the Palestine Currency Board Ordinance.[40]

Clauson (Colonial Office) however complained that colonies could not afford to build up currency funds to 110% since they needed revenue for development.[41] The Crown Agents complained that deposits at the Bank of England earned no interest.[42] The Colonial Office informed Cyprus that their reserves should not be invested in local Cyprus government securities.[43]

A 1931 Memorandum[44] on Straits Currency written by Gerard Clauson for the Colonial Office Currency Committee correctly pointed out all the anomalies: the currency reserves were massively in excess of the notes in active circulation, unnecessarily sterilizing funds that could be released for development; the currency system still had a bimetallic facade with the silver dollar and fifty cent coins being unlimited legal tender while the currency was supposed to be on a sterling basis; sterling reserves were unnecessarily being held against coins; there were excessive amounts of silver currency being held, when their bullion value had shrunk to an eighth of their face value and when the population had long shown preference for notes; and the continued holding of gold reserves when there was no role for it in the Straits sterling exchange system.

While internal minutes recorded that the existing system was 'clumsy and wasteful' in holding unnecessary amounts of gold and silver, it was decided not to sell the silver because of the likely effect on the price of silver in London nor should the gold be sold 'because of the views of the Bank of England'.[45] One internal view was that notes should be replaced by more silver coins. While the Treasury also held similar views, a minute stated that on these matters they should be 'guided entirely by the Governor's views' clearly indicating the origin of the pressures.

When proposals were made to create an all-Malayan currency later in the 1930s, despite the recognition that a 110% cover was more than adequate, the Blackett Committee recommended an even greater cover of 115%, although the Straits Government sensibly opposed this. It would be 1934 before the overvalued silver dollar token was deemed to be an 'anachronism' and limited in legal tender.[46] The official records indicate that British silver accumulated in many colonies, and that, right up to 1949 the imperial authorities were denying any liability to redeem British silver coins either at face or bullion value.

In 1933, the Treasury tried to ensure that Gibraltar also accumulate reserves that were 100% of the notes in circulation.[47] The Colonial Office Currency Committee argued that it was not necessary to meet the current liabilities and that it would be a 'heavy and unnecessary burden', to no avail.

In Fiji, despite the existence of substantial currency reserves (gold, sterling and silver) the Fiji pound was devalued in 1933, along with the Australian and NZ pounds. Sidney Caine, later to become a stalwart defender of imperial interests in colonial currency and monetary matters, noted internally that the devaluation should not surprise any one as 'no use is being made of these resources, they have no effect on its currency value'.[48] In Fiji also, right up to the 1950s, London banned the colonial government from raising local loans which being offered by Australian banks and large corporations, as well as loans in London.

The Joint Colonial Fund, 1930–34

During the great depression of 1930–31, the JCF balance fell from £10 million to £7 million. The JCF had issued Treasury Bills and made temporary advances to colonies pending the raising of their own loans, which did not eventuate because of pressure from the Treasury. With the Treasury also preventing the reissue of colonial Treasury Bills, the JCF borrowed the insignificant sum of £1.5 millions in London, bringing down the ire of the Bank of England.

Using this minor incident as an excuse, the Bank and the Treasury then forced the Colonial Office and a reluctant Crown Agents to accept a 'working rule'[49]: the JCF would only offer temporary bridging finance and that for only 50% of loans already approved by the Secretary of State from the London money market; colonial Treasury Bills were not to be used to finance capital works; the Bank was to be consulted on all colonial issues; the JCF was to be kept 'thoroughly liquid with an ample margin to allow for unexpected emergencies'; the proportion of long-term securities was to be reduced; the JCF was not to borrow from the London banks except in wholly exceptional circumstances; and the Secretary of State was to be informed of all future JCF transactions. Colonial reserves in London then were far larger than the tiny amount that the Crown Agents had borrowed. The same trivial incident would be used to justify similar constraints by the Bank 20 years later.

In 1934, the Bank of England again complained that the Crown Agent was investing in long securities earning higher rates of interest and that the Treasury must 'squash him as often as the case may require'.[50] A Treasury Memorandum[51] noted that they had applied pressure on the Currency Boards to sell all their long British Government securities, buy shorts, while leaving large sums on deposit and in Treasury Bills, with the WACB being a 'model as regards the policy of holding British Government securities, which make up 90% of its investments'. Under pressure from the Bank representatives, the EACB had also followed suit, but the Palestine Currency Board, with a Crown Agent as Chairman, had only 60% in British Government securities, while those of the Dominions was 26% and of Colonial Governments 14%. The Treasury reiterated their support of the Bank of England policies.[52]

No evidence was put forward at any time by the Treasury or Bank of England that Dominion or colonial government securities were any less liquid than British Government securities, or that Crown Agents and private bank representatives on the currency boards were unprofessional in any way. Contrary to King (1955), there was a deliberate policy to minimize the interest earnings on British Government securities, and reduce the proportion of the securities of the Dominions and even of colonial Governments themselves, and these objectives were indeed achieved (Tables A.4, A.5 and A.6 in the Appendix).

There is ample evidence (not included here due to space constraints) that similar pressure from the Bank of England and Treasury was brought to bear on the Colonial Office and the colonial governments of Ceylon (Sri Lanka) and Mauritius, from 1931 to 1941,[53] with the difference that it was investment in Indian rupee securities that were minimized, while increasing investment in British Government securities and liquid sterling assets. The enforced holding of useless silver reserves, and the undermining of the rupee currency area continued. The same senior civil servants were involved in the decision-making, and willing to use 'personal' communications to colonial governors, to convey uncomfortable instructions which would have been difficult to justify as 'official instructions'.

Creation of unofficial 1938 and 1943 'rules'

In 1938, with war against Germany clearly looming, the Bank of England used spurious arguments to pressure the Colonial Office to force the Crown Agents to sell long term securities, even if at 'an immediate loss', so as to increase liquidity in the colonial currency reserves.[54] The Colonial Office internally pointed out all the fallacies in the Bank arguments: during the war, all currencies including sterling would be inconvertible; depreciation of securities would be minor and covered by the 10% margin in the 110% cover; investment of the 'hard core' in long term securities was perfectly justified as there was no danger that notes would be presented for redemption; and currency circulations would be increasing, not reducing.[55]

Despite the well-reasoned Colonial Office opposition, the Bank, supported fully by the Treasury, forced through a '1938 Rule' for ensuring greater liquidity in the Joint Colonial Fund: at least 60% of the JCF was to be lent on call or at short notice, or kept in U.K. Treasury Bills or other short-term (i.e. not more than 12 months) securities; the balance of 40% could be invested in long term securities. From 1938 to 1945, the JCF was managed according to this '1938 Rule' imposed against the sound opinions of the Colonial Office and Crown Agents.[56]

In 1942, the Bank and the Treasury used the extreme example of the tiny Gibraltar Currency Fund whose liquid portion had apparently declined from 24% to 18%[57] to force[58] the Crown Agents to sell off more of the longer-dated stock as was being done by the three London-based Currency

Boards.[59] The Bank rejected the Colonial Office suggestion that the matter be handled together with other general colonial currency policy issues.[60] The Colonial Office accordingly instructed the Crown Agents, who reluctantly acceded.[61]

Nevertheless, the Crown Agents documented that the London Currency Boards and the colonial funds in general were considerably more liquid than the guidelines suggested, they saw no problems of liquidity or maturity, and they could always transfer securities between funds if the need arose. The Crown Agents informed the Colonial Office that the colonial investment policies had been determined by the colonial Currency Commissioners under their legitimate powers.[62] The Crown Agents again pointed out all the weaknesses in the Bank's views, and informed the Colonial Office that they *would not copy their letter to the Bank of England* since the matter appeared 'essentially, to be one for settlement between the Crown Agents and the Colonial Office'. The Crown Agents clearly recognized that it was not proper for the Bank of England to be influencing their investment decisions.

Soon after, the Crown Agents complained that colonial funds were seriously losing income because of the Treasury directives.[63] The minutes of a 1943 meeting between the Crown Agents, the Colonial Office, the Treasury and the Bank of England[64] recorded that 'little thought had been given to an investment policy for colonial currency reserves'. The Treasury argued that the essential principle should be 110% cover and complete convertibility, with income being a purely secondary if not entirely unnecessary consideration. The Bank claimed that even the 110% cover was not an adequate safeguard, while the Treasury warned against investment proposals from 'less competent authorities' in the colonies.

Despite all the rational arguments by the Crown Agents and Colonial Office, the Bank and Treasury forced through a '1943 Rule' whereby 50% of new money in excess of the pre-war figures would be invested in short-dated securities and the balance kept at call in the JCF. This was all justified using the trends for the smallest currency fund, that for the Falkland Islands. All colonial sterling reserves would effectively be kept liquid earning minimal income, while most investments would be in short term British Government securities.

Application of the 1943 Rule immediately created excessive liquidity in some funds (Malta, Trinidad, Malaya and Cyprus), which the Crown Agents vainly tried but failed to exclude from the Rule.[65] There was a chorus of colonial protests. To Jamaica and Gibraltar, the Colonial Office deviously claimed that 'their investigations had shown' that colonial currency funds had no special arrangements to ensure a margin of liquidity for sudden contractions.[66]

The Treasury now strangely argued that colonial investment in British Government securities (which they themselves had encouraged) would create future problems for Britain's balance of payments. It also began to

argue that colonial sterling reserves were almost entirely due to expenditure by Britain in connection with the 'common' war effort: holders did not have any 'equitable claim to make a profit out of the sterling in their hand.' The Colonial Office however pointed out that most of the increased circulation in the colonies was permanent.[67]

The Bank of England then apparently influenced the London Discount Market to pay lower interest rates to colonial funds, through an unofficial agreement noted by the Chairman of the London Discount Market Committee.[68]

Deception of colonial governments: 1945–57

The manipulation of colonial sterling reserves in imperial interest continued well after the war was over and despite wartime academic criticisms of imperial policies (discussed below). At the end of 1945, when the Crown Agents advised colonial governments that with the British Chancellor likely to reduce interest rates, they should invest any surplus balances held in the JCF which had increased massively since its inception in 1929,[69] the Colonial Office declined, quoting the '1938 Rule'. The Crown Agents pointed out[70] all the reasons why they saw no problems of liquidity: the colonies were flourishing, they were unlikely to draw down their London balances, and any sudden demands could be met from the JCF whose investments were spread in terms of maturity. There was no likelihood of depreciation of securities since the British authorities were controlling interest rates. The Crown Agents proposed to have 50% of the investments in securities of over two years' maturity, with the rest under two years and not less than 25% under one year.

One Colonial Office official not only agreed with the Crown Agents' assessment and objective of increasing the JCF earnings, but thought that proposals for modification did not go far enough.[71] It was noted that despite the original objective of the JCF to provide temporary loan accommodation to the colonial governments, the 1945 return showed less than 3% actually lent to colonies, while the bulk of the investments were in stocks of the UK Government and municipalities, and the Dominions (see Tables A.4c and A.4d, Appendix).[72] The Colonial Office admitted that the failure to achieve the income objective could be attributed to the UK Government's 'cheap money policy'.[73]

In the Colonial Office, quite contrary to the reality, Sidney Caine now claimed that the Colonial Governments did not need any advances[74] and he argued that the JCF was like the colonial banks that had also reduced their colonial advances. He claimed that if colonial governments wanted to borrow in the future, the JCF would oblige.[75] Caine argued that an increased yield was not a sufficient reason to change investment policy, given the 'closer control of all capital and money market transactions, of closer attention to problems of sterling balances, and of more substantial general Treasury assistance to Colonial expenditures'. He advised that the Treasury should

be treated as 'full partners' in any decision, clearly willing to reduce the authority of the Colonial Office in colonial government reserves policies.

The Treasury rejected the earlier Crown Agents' proposals and demanded even greater liquidity and a lower interest payment by the JCF.[76] Internally, the Colonial Office defensively noted that the Treasury had not explicitly represented the interests of UK and the investment policy of the JCF was a matter between the Secretary of State and the colonial governments even if the latter's opinions may be overridden.[77] They informed the Treasury that 'in the interests of the Colonies themselves, the Crown Agents' suggestions for modifications of the present investment policy would have been well justified'.

Nevertheless, the Colonial Office conceded that they did not[78] 'want to pursue a policy which the Treasury feel is contrary to the general policy of H.M.G. ... arising from the general sterling balance position' and conceded that they would make no change in the existing policy. The Treasury refused to budge.[79] The Colonial Office instructed the Crown Agents to follow the Treasury's more conservative rules.[80] Dismayed junior Colonial Office officials complained that the instruction was not reasonable and would involve a 'substantial sacrifice on the part of the Colonies'.[81] They gave all the rational arguments why the status quo should be maintained.[82] The Treasury warned that their proposals would have to apply for several years to come.[83]

Strangely then, one Treasury official informally gave support to the Colonial Office position, suggesting that there were Treasury officials who were uneasy with what they were requiring the Colonial Office to do.[84] Reinforced by this, the Colonial Office belatedly complained that the Treasury was undermining the Crown Agents' role and competence in managing the JCF.[85] The Treasury then agreed not to pursue their far more conservative proposals, having successfully squashed the original Crown Agents' proposals, which had been previously acknowledged to not go far enough in the colonies' interests.

Soon after, a meeting between the Bank of England, the Treasury and the Colonial Office apparently agreed 'that for the next five years the problem was basically how to prevent accumulated sterling from being liquidated against imports'[86] despite the Colonial Office pointing out that as trustees for colonial development, Britain could hardly apply yardsticks to them as used for the Dominions and independent countries. Measures discussed had been: increased taxation, stricter import controls, the devaluation of colonial currencies, cancellation of the balances, interest free loans to H.M.G. and use of currency reserves for development before borrowing from the London money market.

Hinds (1991, p.29) points out that Keynes had circulated a Memorandum to the War Cabinet in May 1945 claiming that the colonies had earned substantial sums 'from our local war expenditure' and that they 'should

have been required to make a contribution to Britain's war effort by cancelling part of the sterling balances they held in London'. The suggestion was not acted upon for political reasons.

By 1947, with large sums being sent in by colonies such as Hong Kong, the Crown Agents sought permission to not apply the restrictive rules on investment.[87] Seychelles also complained and instructed the Crown Agents for greater investment,[88] which the Crown Agents also informed would mean breaking the '1943 Rule'.[89] Within the Colonial Office it was noted that Caine had previously instructed the Crown Agents that colonial income would have to be limited as part of a 'colonial sterling balance settlement' and that 'the U.K. balance of payments position has deteriorated greatly since that time, and the need for such limitation is much stronger'.

While recognizing that the Seychelles directive was entirely in order, Caine wrote 'personally' to the Seychelles Governor and advised that they maintain some 25% of their Note Security Fund in the JCF in order to prepare for currency contraction.[90] Also for the Governor's 'personal' information and not to be passed on to non-officials in the colony, Caine explained that the currency reserves formed part of the 'famous' sterling balances and '*as part of the very informal settlement of these balances which is becoming accepted we are working on the tacit understanding not to squeeze the last ha'penny of interest out of the balances, since such interest can only be at H.M.G.'s expense and must add, however infinitesimally, to the adverse U.K. balance of payments which is the constant nightmare of the Treasury.*' The Governor replied promising cooperation.[91]

The Crown Agents then pointed out that a 'larger dog had woken' with Hong Kong also demanding that their funds be invested for income.[92] Hong Kong stated tongue in cheek that they did not wish to comment on the cheap money policy being pursued by H.M.G. clearly indicating an acute awareness of imperial interests in leaving Hong Kong money liquid in London. While the Colonial Office internally agreed with Hong Kong's stand, Caine incongruously informed Hong Kong officials that 'as it raises a question of policy we think it better that I should address you personally'.[93] The Seychelles arguments were repeated although Caine conceded that half of their Treasury Bills component might be invested. Hong Kong complained that this was not enough since their funds were earning a mere 1.7% whereas they had to borrow at 3.5% in London. They again requested loans from their own Exchange Fund, previously denied.[94]

The Malayan government clearly annoyed at the illegal sacrifice of their financial interests, referred to their currency legislation[95] and demanded greater investment of their currency funds previously denied in February 1947, when Caine had asked the Crown Agents 'orally to leave things as they were for the time being'.[96] Jamaica reprimanded the Crown Agents for illegally referring their investment instructions to the Secretary of State against their currency laws.[97]

The Colonial Office again took up the matter with the Treasury.[98] Caine pointed out that while the Treasury had previously wanted to prevent the colonies from 'making too good a thing out of their sterling balances' the '1943 Policy' could no longer be justified on the grounds of currency policy, and wider grounds were contradictory: they could not simultaneously[99] 'urge the colonies to carry out extensive development programs and deny them the financial means of doing it'. Treasury had to be faced with the 'contradictions of their present attitude' and the Colonial Office must press for a policy that was 'governed by sound currency practice and by nothing else'. If the Treasury insisted, the investment income could be linked to development expenditure. The Colonial Office and Sidney Caine were well aware that colonial development was being severely retarded because of restrictions in imports two years after the end of the war.[100]

The Malayan Government now pointed out that under the Malayan Currency Agreement the approval of the Secretary of State was only needed for investment in securities other than those of the Governments of the UK or any parts of the British Empire.[101] The Colonial Office warned the Treasury that the 1943 Rule could not be justified to the colonies, especially when they were 'urging Colonial Governments ... to utilize to the full all the financial resources at present available to them and to restrict calls on the London market to a minimum'.[102] With the war over for three years, the Colonial Office stated it wished to 'pursue a clear policy which [could] be justified to Colonial Governments in the light of sound currency policy and nothing else'.

The Bank of England remained adamant on the necessity to reduce income from the currency funds and the sterling balances, even if this could not be told to the colonies. The Colonial Office countered with their previous arguments.[103] The Bank acknowledged that there had been some inconsistency, but contradicting their own 1945 admission, now claimed that currency funds could not be used for capital development.[104] The Bank asked for a geographical distribution of each colony's security holdings which were given (see Tables A.6a and A.6b in the Appendix), implicitly indicating the geographical dimensions of their concerns over the run-down of sterling balances.

At a meeting with the Crown Agents, the Treasury and the Bank of England, the Colonial Office agreed 'in principle' with the Treasury and the Bank views, despite their internal views to the contrary, and despite their acknowledgement that colonial governments had the statutory powers to instruct the Crown Agents on their reserves' investment policy.[105]

An elaborate charade to deceive the colonies was agreed upon. The Colonial Office would give colonies a brief 'tactful' history of the 1943 policy and ask colonies to advise the Crown Agents on an investment policy for their currency reserves. The Colonial Office would then persuade them out of unsuitable ones. They would then kill the 1943 Policy 'as unobtrusively as

it was brought to life, by conveying revised general guidance to the Crown Agents, which would of course cover existing outstanding cases, and [make] no direct communication to the Colonial Governments at all.'[106] This they thought would pre-empt possible recrimination.

Despite continuing complaints from colonies at their excessively liquid funds, the Crown Agents and the Colonial Office waited for the Treasury to make up their minds[107] and instructed the Crown Agents to continue their policy of minimizing investment income, until the 1943 Rule was changed.[108] It was decided that a Colonial Office representative would 'personally' deal with continued complaints from Malaya on his visit there.[109] The Crown Agents were instructed to take action only if pressed by the colonies.[110]

The Crown Agents moved closer to the liquidity rules advocated by the Bank of England and the Colonial Office also began accepting some of the Bank's dubious arguments.[111] They now accepted the Bank of England's view that there might be a currency contraction because of a fall in prices or a slump (while simultaneously claiming to academic Greaves that a key objective of their colonial currency policy was to be prepared to control inflation – see below). They recommended that the best solution might be 'to recognize the fact that the Secretary of State [had] no legal or constitutional right to order the details of currency fund investments and to let the Crown Agents pursue a policy which [the Colonial Office had] reason to think [would] be acceptable in practice to the Colonies *without materially altering the present situation*' (my emphasis). Individual colonies that 'stepped out of line' would be dealt with individually. By simply agreeing not to change any policy, the status quo, which harmed colonial interests, was continued with, accompanied by deliberate imperial deception of colonies.

The Bank admitted the validity of most of the previous arguments from the Colonial Office, but emphasized the Treasury's general policy that wartime accumulations of sterling balances should be limited.[112]

An internal 1949 Treasury Memorandum indicates that the Treasury had all along agreed with the substance of the Colonial Office and Crown Agents' points of view.[113] The Memorandum admitted that while the rapid growth of the colonial sterling balances was attributed to inflation, heavy military expenditure and liquidity of the banking system, it would not be fair to claim that the colonies 'profiteered' out of the war. On the contrary, the terms of trade moved against them and the cost of their imports rose faster than export prices'. The Memorandum discussed four possible measures to reduce the problems posed to Britain by the sterling balances: partial cancellation (as contemplated in Article 10 of the Washington Loan Agreement); interest free loans to H.M.G.; expenditure for development in order to reduce pressure on the London money market; and increased restrictions on colonial imports.

The Memo felt that they could not cancel the reserves of India and Egypt unless they also canceled the reserves of the colonies whom the

authorities could 'in the last resort compel to accept what we believe to be right'. However it admitted that it would clearly be 'illogical and inconsistent' to give to colonies with one hand while taking assets they already possessed. While cancellation had been a useful bargaining tool earlier, the Memorandum warned that to attempt it so many years after the war would face 'utmost difficulty on political grounds'. The Memorandum pointed out it would be politically easier for colonies to extend interest-free loans to the Exchequer, which would not weaken the currency reserves since they could be prematurely repaid if, and only if, it became necessary to maintain the convertibility of the colonial currency into sterling.

If the reserves were not cancelled, the colonies could draw down their own currency reserves before borrowing from London. However, the disadvantages were that the colonies might continue raiding the currency reserves and it would not change Britain's net sterling position. The Memo saw no scope for further reduction of imports since they had already been pressured into conserving not only hard currency, but also sterling.

The Colonial Office disagreed with all of the Treasury's proposed alternatives and requested them to not base their conclusions on political grounds. The Treasury was reminded that colonies could not be treated like others who had run down their sterling balances while the colonies had increased theirs, while also halving their dollar expenditure since 1947.[114] The Colonial Office also pointed out that, while they did not wish to attack the sanctity of the 110% cover, there might be individual cases where the balance of arguments 'both political and economic, might be in favor of allowing the local investment of a small proportion of currency funds'.[115]

Colonies continued complaining about undesirable imperial reserves policies, the Crown Agents kept giving misleading excuses, illegal actions kept being justified ex post, and the Colonial Office agreed to go along with ad hoc decisions and the status quo.[116] The Crown Agents complained that a whole year had gone with the Treasury still refusing to reform the policies.[117] The Colonial Office consequently informed the Treasury that subject to their comment, the Colonial Office proposed to agree that the Crown Agents should perform their normal function on behalf of the colonies subject to the limitations suggested in May 1949 by the Treasury and the Bank.[118]

An indirect way of seeing the effects of the policies discussed above may be through the breakdown of the security holdings of the West and East African Currency Boards (Appendix, Tables A.4a and A.4b). By the 1950s, almost 99% of all the securities held, were of the British Government. The Crown Agents' own pension funds (Table A.4f) held *no British Government securities and a relatively higher proportion of colonial government securities, as also did the funds over which they had more control.*

As late as 1955, the Treasury was maintaining its defense of colonial currency policies and fostering the holding of UK securities, trends they

were closely following (see Table A.9a of the Appendix).[119] Between 1945 and 1954, the JCF deposits increased from £47 millions to £130 millions, kept mostly in cash, Treasury Bills and short-term securities of the British Government (see Tables A.4c and A.4d in the Appendix). The loans to colonies remained relatively insignificant, while colonial requests for loans in the London money market kept being refused by the authorities.

There then took place an exchange of correspondence between the Colonial Office and the Treasury, which revealed the full imperial recognition of the development costs to the colonies of holding such excessive reserves. The Treasury, in a Memorandum marked 'TOP SECRET' sent in March 1956 detailed statistical tables (Tables A.9b to A.9g in the Appendix) which showed that imperial currency policies from 1949 had resulted in a massive increase in all colonial sterling reserves, which even the Treasury did not expect to decline significantly.[120] The Memorandum stated that the 110% sterling reserves system had been a stabilizing factor for the balance of payments 'though in terms of the progress of the internal economy it may have had some relative retarding effect'. With the currency reserves between 1949 and 1955 increasing by 86% while the national income had increased by about 60% by 1954, the Treasury thought that 'in the Colonies as a whole, currency in circulation must go on increasing over the next few years'. The currency reserves were therefore thought to be 'safe' even if a 20% fiduciary issue were widely adopted.

The savings sterling reserves (as also the sinking funds, pensions and renewal funds, and other special funds) generally reflected the increased national incomes and the Treasury saw 'no reason to expect a reversal of the increase in deposits over the next few years'. With regard to bank deposits in various colonies, while the Treasury warned that there 'would clearly be dangers to economic stability in allowing very great expansion of local advances', nevertheless, in most colonies, the rise in the level of deposits had 'more than kept pace with the rise in local loans and advances, so much so that foreign balances have risen proportionately even more rapidly'.

Even of the 'unsafe' remainder (some £750 millions), the Treasury observed that it was 'unrealistic to expect all Colonies to draw down their balances rapidly and at the same time, since their conditions vary considerably'. Moreover, 'the conditions likely to lead to large-scale drawing down of balances are favorable to the United Kingdom' in terms of trade and export prospects.[121] The Memorandum concluded that over a period of five years, the effect on colonial sterling assets of 'responsible policies' followed by colonial governments, even in continued unfavorable world price conditions, would be a maximum reduction of some £250 millions only, and a maximum of £100 millions in any one year.

Within the Colonial Office, Selwyn pointed out[122] that in the long run, the colonies' external reserves must fall, simply because they were 'higher than those of countries with similar economies in relation to their national

income'. While the British colonies' reserves were much more than 50% of their gross incomes, others were able to get by with much less: Ceylon (4%), Burma (3%), Guatemala (7%), Honduras (10%), Israel (6%) and Philippines (7%). He pointed out that new independent governments in Malaya and West Africa 'may well reckon that the present high level of reserves is a luxury they can't really afford'. As responsible governments, they would have to keep taxes moderate and get ahead with development, thus necessarily leading to a reduction of reserves. Selwyn also pointed out that once independent, the colonies would start to raise fresh loans and would 'frequently find that it pays them better to realize their reserves than to raise fresh money'. He expected colonial recurrent expenditures to increase, and with the establishment of the colonial central banks, there would be a 'considerable scaling down of the external backing to their currencies'.

Within the Colonial Office, Selwyn complained that 'the word "responsible" according to the Treasury [meant] conservative and in accordance with U.K. interests', clearly indicating that colonial interests were subordinate in all these decisions. But another internal Colonial Office minute[123] recorded that while the Treasury would not now attempt to put a brake on the Colonial Office since it would involve H.M.G in 'very considerable political trouble with the colonies', the Treasury might still 'consider that the risk to UK economy of an uncontrolled rundown [of colonial sterling assets] is even greater'. Overall, within the Colonial Office, the interests of Britain would still prevail over those of the colonies, ten years after the ending of WWII when the demands of wartime measures may have justified such policies to some extent.

During this period, following a 1943 criticism of the Nigerian currency board by Oxford academic Mars, the authorities were busy fostering and supervising an alternative academic study by Ida Greaves to rebut these criticisms. Their internal machinations for this Greaves study give us a new perspective on the nature of imperial policies on currency and in general (see below).

Decline and defense of sterling, 1947–57

Sterling continued to decline: between 1947 and 1957, with the US dollar taking over from sterling as the major international reserve currency, there was a tendency for reserves in New York to generally earn higher interest rates than in London.[124] Dominions such as Australia had begun from the 1920s to treat sterling asymmetrically: selling sterling when reserves were falling, and buying non-sterling when reserves were rising, ultimately even added to her gold and dollar reserves when her aggregate reserves were falling.[125]

Between 1945 and 1953, the sterling holdings of the non-sterling world fell by £450 millions and of the independent sterling area by £200 millions: those

of the colonial dependencies rose by £799 millions to £1.3 billions.[126] From being an eighth of the total British obligations to non-residents in 1945, colonial holdings had grown by 1953 to a third.[127] While colonial reserves were frozen in London, Britain was also making a net investment in Australia and South Africa of some £800 millions: it has been argued that Britain was not the original source of funds to finance the immense expansion of British investment in the Independent Sterling Area since the war.[128] Between 1953 and 1956, Britain was willing to 'appease' the independent sterling countries, giving them precedence in capital exports, at the expense of the newly independent Commonwealth, and even over domestic investment (p. 114). East Africa also 'did not fit well into the design of the discriminatory sterling area.... In Kenya a high level of consumer goods had to be admitted for the settler population...' (Krozewski p.86).

These opposite tendencies were also reflected in the trade patterns. While Britain declined in importance, both as a market and a source of supplies for the independent sterling area, colonial trade showed the opposite trends.[129] From 1946, the colonies contributed rising dollar and sterling surpluses, while their dollar imports fell substantially, mainly by tightening colonial dollar quotas of the preferred dollar goods.[130] Polk has observed that the British authorities assumed that 'large sterling reserves in the note covers of other sterling countries represent[ed] a permanent withholding of sterling from the market and hence an easing of the demands which otherwise would be presented against British resources'.[131] The evidence in this chapter has indicated that the expectations of the authorities of the colonial reserves were much wider.

Restrictions on colonies continued: 50% of colonial government income was to be maintained in reserves, taxation kept at high levels, tightened borrowing in London money market, link made between aid and sterling balances, major holders of colonial balances not allowed to float new loans, capital exports to sterling rich countries discouraged, colonial grants and loans to colonies also restricted as these helped to maintain the sterling balances, while colonial development shied away from development projects.

Ten years after the war, in 1954–55, total sterling assets of colonies amounted to £1446 million, of which currency reserves were £439 million, Special Reserves were £347 million and Government holdings were £264 millions.[132]

Imperial manipulation of academia: Mars, Greaves and Lewis

In most academic analyses of imperialism and the colonies, the focus is usually on the imperial and colonial decision makers, such as the Colonial Office and the Treasury, and private economic interests behind them such as the Bank of England or dominant economic interests in the colony. The role of academics and academia rarely comes into the picture.

This section briefly presents four sets of interactions between academia and the imperial decision-makers in the Colonial Office (such as the influential Sidney Caine) and those behind them (such as the Bank of England) on colonial currency policies. These interactions and internal debates took place well before the same issues appeared in academic journals and they reveal with stark clarity the extent to which the authorities were fully aware of, and admitted, the defects in the currency board system yet opposed reform for a decade afterwards. What also stands out – and is worthy of much deeper research – is the over-riding influence of the Bank of England, which ought to have had no role whatsoever in colonial currency issues, given the inherent conflicts of interest.

The first interaction arose out of a Nuffield College study of Nigeria (Perham 1948) in which there was one chapter by Mars (1943) criticizing the currency board system in Nigeria.[133] The second was the Ida Greaves study sponsored by the imperial authorities specifically to counter the Mars criticisms. The third was the sustained academic efforts by imperial civil servants themselves, such as Gerard Clauson and Sidney Caine, writing in academic and business journals to counter the criticisms, despite internally acknowledging the defects. The fourth was the imperial opposition to and effective marginalization of the critical views of eminent West Indian economist William Arthur Lewis, within the Colonial Office economic advisory committee structure.

This section illustrates how academic analyses lagged behind the thinking and decision making processes in the corridors of power, surfacing only 'after the damage was done'.[134]

Mars' criticisms, 1943

In 1943, the Colonial Office was circulated a draft chapter in the Nuffield College study of Nigeria, in which Mars (1948) had argued that the currency board system was inelastic, unnecessarily costly and deflationary; the part corresponding to the 'hard core' ought to be made fiduciary and backed by the issue of local colonial government securities to expedite development; the exchange rate should be independent of sterling and varied if necessary; there should be a central monetary authority in the form of a central bank; and that new credit institutions should be established to foster economic development.

Sidney Caine consulted Keynes, then in an advisory role at the Treasury, with a devious, inaccurate and misleading articulation of the problem, given his awareness of imperial opposition to the possibilities he outlined.[135] Caine stated that while colonial governments could spend new additions to the currency funds on current expenses or on capital development, the existing imperial practice was to invest them for future income. He suggested that there was no need to spend the currency funds on development since the colonies had access to the London money market where all that mattered

was the rate of interest and the colonies' 'own willingness to borrow'. Caine argued that there was no problem in a colony both lending and borrowing at the same time since the interest earned on the non-liquid portion of the currency funds was pretty much the same as the rate paid on current borrowing; and Caine claimed that no manipulation of currency funds could 'greatly affect the resources available to them for borrowing'. None of these possibilities had been allowed by imperial decisions to which Caine himself had been party.

Caine claimed that the Colonial Office was worried that if colonial governments borrowed from currency funds rather than on the open market, they might be more willing to engage in expenditure which the Colonial Office then wanted to discourage, while evading the control of capital issues in the London market. Caine claimed that the Colonial Office thought it was not desirable to issue local colonial government securities (as Mars recommended) because of inconvenient redemption dates and narrowness of local markets especially if the securities were repayable on demand. He conceded that for purely local loans, it might be possible and useful if the Currency Authority became a regular holder of short-term Treasury Bills. On the other hand, Caine claimed that there was a great advantage to the colony in being able to invest in outside stocks without incurring any exchange risk at all.

Caine informed Keynes that the Colonial Office thought that 'colonial currencies were really sterling by other names' and that for monetary purposes, the average colony was hardly different from the British County of Cornwall. He claimed that the essence of the system would be left completely unchanged if the whole business of issue of currency for use in the Colonies was handled by the Issue Department of the Bank of England, subject only to some suitable arrangement by which the Colonies shared the profits of that Department with His Majesty's Treasury. Ironically, the very system which had been rejected by imperial authorities in creating the currency boards 40 years previously, was now claimed by Caine to exist.

Keynes replied that the Colonial Office analysis was 'complete' and 'convincing' and strangely suggested that the currency board system was designed, 'probably on purpose, to promote a high degree of conservatism in development': a colony would be more reluctant to develop if it thought that it was doing so by borrowing rather than if it thought that it was using its 'own money, the savings of its inhabitants'.[136] Keynes did point out that to hold 100% external reserves instead of having a proportionate fiduciary issue encouraged conservative colonial finance. Keynes was then Britain's negotiator at the Bretton Woods conference, fully aware of the usefulness of the colonial sterling reserves in maintaining the role of sterling internationally, and had even recommended to the War Cabinet their partial cancellation.[137]

The Colonial Office then informed Oxford's Perham that Mars' criticisms were 'not sound'.[138] They advised that currency manipulation would not be

useful for Nigeria, and since it was difficult to know what exchange rate was desirable, the best policy was to leave it alone; that given the primitiveness of Nigeria's economy and the lack of accumulation of established monetary claims, there were no disadvantages to Nigeria being tied to sterling; and that Mars was simplistic in arguing that there were exchange restrictions between Nigeria and Britain: the Colonial Office advised that this paragraph might be left out altogether from the publication. However, they did agree with Mars that the cover held by the West African Currency Board was excessive. Nevertheless, while a more generous policy of distribution to the Government was possible, the wartime difficulties would prevent the expenditure of such funds.

Caine warned the Bank of England that Mars' criticisms would be surfacing, describing the study as 'revolutionary' and 'unsound', but also admitting that Mars had 'put his finger on defects in the present system which [the authorities] ought to try and remedy'.[139] The Bank of England expressed contempt for Mars' economic understanding and doubted the academic integrity of Nuffield College.[140] The criticisms by the Bank of England were passed on to Margery Perham and had one effect that Mars was asked to reduce his material.

The extended correspondence between the Colonial Office, the Treasury and the Bank of England indicated that all three conceded some of Mars' important criticisms, while the Bank of England continued to vehemently oppose reform.[141] The Colonial Office admitted that new credit institutions were needed to provide credit for the development of internal trade and industry. The Bank, while admitting that rural financial institutions might be needed, ridiculed Mars' suggestion for a Central Bank, arguing that Nigerians would not necessarily be better off simply by 'possessing several more high-sounding financial bodies' at the cost of a few million pounds. Caine assured the Bank of England that the Colonial Office would not be going further with that idea.

The Colonial Office argued that while it did not matter whether the Currency Board invested in United Kingdom securities or in stocks of the constituent colonial governments, it did admit that the existing practice was too conservative and had the 'undeniable defect in principle that currency required for circulation in connection with purely local internal trade has nevertheless to be covered by holdings of external securities, involving either the surrender of a corresponding part of the proceeds of exports or the incurring of an overseas debt'.

Caine admitted that the WACB had reserves 'in excess of what [were] needed even on a conservative review of liquidity requirements'. He also agreed that the 'hard core' portion of the currency reserves, if made available to the colonies as an irredeemable loan, would also have the advantages of saving colonies the costs of issue and provision of sinking funds, they could carry a low rate of interest, and being saleable by currency authorities, would

help a local securities market to develop. They estimated that funds released to Colonial Governments might be as much as £25 millions, which was a half of the total amount the imperial government initially planned to spend on all colonies over the first ten post-war years. Later, the Colonial Office also admitted that there were significant differences in rates of interest earned on currency fund investments and those paid on colonial loans.[142]

The Bank of England rejected the idea that colonies could have invested equally in colonial government or UK Government stocks.[143] It argued that, if the colonial stocks were local, then they would not be liquid enough; but if they were sterling stocks of the Colonial Government itself, then it would be 'unjustified borrowing' if the colonial government stocks might not have been otherwise saleable to UK investors. The Bank acknowledged the possibility of a fiduciary issue but warned it would have to be based on the monetary circulation at the lowest point of the previous major economic depression, with additional safety margins. Moreover, the sterling released would have to be used only to redeem colonial sterling debt or for capital expenditure. The Governor had other reservations.[144]

Caine weakly explained to his superiors in the Colonial Office that a fiduciary element in colonial currency systems would be an imitation of the Bank of England.[145] He recorded in an internal minute that 'Mr Governor's [view] was that the logic of the scheme is unchallengeable but that none the less he felt nervous and hoped that nothing would be done about it at present ... [I had not] in fact, contemplated any action in the immediate future – it is a post-war affair because the Colonies could not use any more money today even if they had it.' No action would be taken immediately after the war either for more than a decade.

Following Mars' criticisms, the Colonial Office set up a Finance Sub-Committee of the Colonial Economic Advisory Committee to discuss colonial currency policies.[146] The Colonial Office admitted the defects of the existing colonial financial and currency systems:[147] the currency board system had a strong deflationary bias, was inelastic and incapable of adjustment to local conditions; credit policy too closely followed that of the UK; the system of 100% sterling reserves entailed an export of capital needed for local development; commission rates were too high; and the currency areas were too small.

They discussed the key policy issues: whether it was desirable to change to a fundamentally different metallic standard or 'managed' currencies; whether changes should be made to the reserve policy; whether they should invest in local colonial securities or Treasury Bills; whether commission rates should secure income to the issuing authority or the commercial banks, or should be designed to encourage the free flow of funds between the colony and Britain; whether Colonial currencies should be amalgamated or whether inter-colonial flows and business encouraged; whether any change was desirable in the constitution of the London Currency Boards or the local boards of Currency Commissioners.

The Bank ridiculed the proposals for central banks and managed currencies, arguing that colonial currencies could be managed only with respect to sterling; colonies did not have developed banking systems and neither the mechanisms nor the personnel to ensure conscious control of the banks' cash and lending policies; the currency boards could not create money without external cover, they could not have any influence over the fiscal and economic policy of their territories, and they would not be able to withdraw money once issued. The Bank argued that the inability to create money was 'salutary' in that it prevented credit expansion, which 'must sooner or later come up against the need to provide extra currency'. It also claimed that the system was not 'deflationary' but 'anti-inflationary' and the 100% sterling reserves did not constitute an export of capital.[148]

The Bank admitted that there was a case for fiduciary issues, which would release funds for development, but still claimed this was unnecessary since money was 'being made available from various sources for Colonial Development' (quite opposite to the reality). The Bank saw some scope for local securities but rejected colonial Treasury Bills because of the absence of central banks and the undeveloped nature of the local money market (a chicken and egg argument). They also rejected the idea that the areas served by some Currency Boards were too small, although conceded that exchange transactions between colonies should not have to necessitate two conversion charges through London. The Bank thought that allowing local representation on the London Currency Boards would make them unwieldy and suggested the creation of another institution in London, which would keep under constant review all questions of policy affecting colonial currencies.

The Finance Sub-Committee concluded that it was undesirable to have a fundamentally different standard and 'no action was required'.[149] While the Treasury also saw no need for colonial Treasury Bills, this was contradicted by Barclays Bank whose branches had found them extremely useful: not only were colonial interest rates higher than that paid by British Government Treasury Bills, but they could also employ the colonial surplus funds locally rather than exporting them to London.[150] Supported by Professor Plant (LSE) on the Committee, the Bank and the Treasury opposed colonial fiduciary issues, claiming that there was then no shortage of sterling, despite the Colonial Office view that individual colonies did have a shortage.[151]

The Committee agreed that they should work out a scheme before colonies raised it themselves, but 'strictly confined to the Finance Sub-Committee'. The Colonial Office then prepared a detailed proposal for colonial fiduciary issues, which included some of Mars' recommendations: each colonial currency issue would be examined separately; the 'hard core' would be based on the circulation over the previous 15 to 20 years; the variable part would require full sterling cover; the remaining funds, conservatively estimated at 50% (when their own internal estimates had been 80%), would be invested in irredeemable local stocks of the Colonial Government; and the

fixed portion must remain unchanged for ten years, after which a review could be made.[152]

The Finance Sub-Committee met again in October 1945, but the opponents to the Colonial Office scheme claimed that more discussion was needed, objections were made to introducing the scheme, and the plan was shelved. No effective action would be taken for more than a decade.

Manipulation of the Ida Greaves study

To counter the emerging academic criticisms, the Colonial Office, with the backing of the Treasury and the Bank of England, sponsored and attempted to influence academic responses: the first, in 1949, being Greaves (1953a), who was to continue the defense of imperial policies throughout the 1950s. Greaves, an academic at the London School of Economics, was supervised by the eminent academic R.S. Sayers whose close supervision was hoped by the Colonial Office to steer Greaves 'to a useful port'[153] and 'refute (or confirm) [Mars' study] in detail'.[154] However, Greaves' pugnacious research and perceptive observations in internal correspondence with the supervising committee, often contrary to what was eventually published in her study, raised many critical issues which would also be raised by academic critics.

Greaves complained that the Supervisory Committee was questioning the study's form and content, already approved by the Colonial Economic Research Committee.[155] Greaves rejected the Bank's insistence that the study not begin with 'untypical' West Indies and asked why six years' continuous effort had been made 'to force them [West Indies] into the same currency mold as other regions'. Greaves rejected the Bank's contention that monetary sovereignty had been relinquished completely to colonies and asked why then the Bank still controlled foreign exchange in colonies.

Greaves complained, amongst other things, of the refusal by the Bank to allow her access to their colonial monetary records, the complete lack of published banking statistics, lack of national income statistics, and of the imperial ignorance of the real effects of colonial policies.[156] Greaves pointed out that while the authorities were regarding the increases in colonial currency circulation as volatile 'inflation', it could also be regarded as a measure of increased production of internal goods and services. Greaves criticized the lack of competition amongst colonial banks, resulting in low deposit rates and high rates for lending. Greaves posed difficult but pertinent questions: why did '*sums sometimes exceeding the total Government debt remain in Bank deposits paying less than half the London rate?*' Was a *'plethora of practically sterile savings a paradoxical feature of a "poverty-stricken" economy?'*

When the Colonial Office doubted the usefulness of Greaves going to West Africa,[157] she assured her supervisors that she would be addressing Mars' criticisms.[158] Greaves was clearly contemptuous of Mars' views.[159] The Colonial Office agreed to finance the West Africa visit, and the Governors of

Nigeria, Gold Coast and Sierra Leone were warned of Greaves' abrasiveness but informed that while '*she is likely to explode some of the more embarrassing fallacies in the famous chapter by Mars*'.[160] The Bank of England worried about Greaves' contention that the commissions charged by the Currency Boards ought to be minimized if not eliminated altogether to encourage banks to keep more cash locally for investments in the colony.[161]

From her West African visit, Greaves continued to ask perceptive and quite correct questions on imperial control of colonial currency funds and policies, which clearly did not make it through to her final product: 'Did other United Kingdom Departments besides the Colonial Office determine and supervise monetary conditions in the colonies? If so, [were] they controlled on the same basis as conditions in the U.K.? What powers of monetary control [lay] with a Colonial Government? Because there [was] no scope for the pursuit of particular monetary policies by a Currency Board, [did] it follow that there [was] none for a Colonial Government? Or [did] the form of Currency Board organization reflect an over-riding external control? Were colonial finances integrated with the London Money Market through the Crown Agents? Was there a need for a new analysis because of the post-World War II British control of sterling?'[162] Greaves asked whether the statistics being gathered by the Bank of England was being used for policy, and whether there was any colonial monetary policy in the first place.[163]

Within the Colonial Office it was minuted that their objective was to maintain 'the status quo, under which the Colonial banking and currency systems [were] subsidiary to those of the U.K.'[164] Another noted that, while the situation might have to be modified with political advance in the colonies, he was 'quite consciously in favor of maintaining this stage of affairs as long as possible'.

The Colonial Office gave Greaves an obfuscating response that there had been little room for colonial monetary policy and that their aim was to foster economic development 'without at the same time unleashing the forces of inflation'.[165] They stated that their currency and banking statistics were useful for indicating inflationary dangers which might be countered by a taxation or savings drive, or in redoubling efforts to provide a greater inflow of consumer goods.

Greaves incisively pointed out the contradictions in the Colonial Office response. Firstly, while Mars had alleged that the system was deflationary, Caine's response had not claimed that the system was inflationary, and an internal Bank of England memorandum had admitted that the system was inherently anti-inflationary. Greaves pointed out that some inflation was necessary for economic development, and moreover, inflation in Britain ought to be matched by inflation in the colonies in order to maintain balance between the import and export sectors of the economy.

The Colonial Office responded with the hope that when 'marshalling the argument against Dr Mars' theories' Greaves would also investigate whether

colonial monetary systems tended to inflation rather than deflation. They deviously stated that the supervision of colonial monetary affairs was 'entirely the responsibility of the Colonial Office [with] a great deal of advice and instruction from the Treasury and Bank of England'. As to the relative powers of Colonial Governments and monetary authorities to control policy, the Colonial Office stated that the 'general position [was] one of control by the Secretary of State'. This reply was ambiguous enough to conceal the reality that the Colonial Office was nearly always subservient to the Treasury and the Bank of England and that the Colonial Office often denied the statutory powers of colonial governments. Greaves' other queries were unanswered.

A frustrated Greaves informed the Colonial Office that she was not prepared to waste time 'trying to reveal by research what it is policy to conceal'. Greaves' relations with the authorities and her supervisors deteriorated. Sayers expressed puzzlement and depression at his failure to guide Greaves but the Colonial Office reassured him and the Bank of England that 'the ultimate decision as to the publication of any such production would rest with the Secretary of State'.[166] There was no pretense of this being an independent objective academic study.

Greaves proposed to the Supervisory Committee that she omit the historical section and also a section on the effects of the currency board.[167] The supervisors agreed to the first but opposed the second, especially in relation to West Africa, insisting that 'i*t would be essential to explain prominently the difficulties and obstacles in the way of development of central banking ... [given] the absence of local capital markets which would make the hasty establishment of a central bank dangerous'*. The Colonial Office left no doubt as to the academic conclusion they desired to see. Greaves again decided to omit the relevant section, claiming personal reasons and lack of time.[168]

A dismayed Sayers concluded that all prospect of really important results had been removed from Greaves' study and asked the Colonial Office to assist similar work begun by Walter Newlyn.[169] Greaves' complaints continued, with some justification given that the information she required would have been basic for the study she was undertaking: banking authorities were not willing to allow the publication of colonial banking statistics; the Colonial Office was making it difficult for her to obtain statistical summaries compiled within the Colonial Office itself; her study was being delayed by their 'dilatory and obscurantist' failure to inform her about bank charges and transfer rates; and she claimed there were 'baseless and gratuitous' interventions by the Secretary of State for Colonies.[170]

While the Colonial Office gave an ultimatum to Greaves,[171] Sayers pleaded with them not to oppose the publishing of reasonable monetary and banking statistics reminding them 'how firmly rooted and dangerous [were] the misconceptions' which Greaves' study would be countering.[172] Greaves' first draft vilified the study by Mars, other authors and the Nuffield College.[173] The Bank complained that while it was 'obviously legitimate to

criticize Dr Mars and through him, Miss Perham and the Nuffield College publication' this could be achieved without being offensive.[174]

By the end of 1951, the Supervisory Committee was still critical of Greaves' contention that reduction of the extremely high conversion charges by the currency boards would in turn reduce the banks' exchange spread. The Bank feared this would mean a loss to the banks.[175] The Colonial Office feared a reduction of bank branches and increased workload and expenses for the currency authorities.[176] Greaves countered that the West Indies experience indicated this was not so, and that it was the banks themselves who were complaining about the currency conversion charges.

Revealing the real reasons for imperial support of high conversion charges, the Treasury countered that the Board had a duty 'to protect its sterling reserves from unnecessary depletion owing to short-term transfers'. Such transfers meant that the Currency Board would lose income for the benefit of a bank and the Board should therefore have such rates as would rule out 'short-term transfers made purely for the profit of the Bank concerned' or short-term investment. This reasoning totally undermined the so-called ready convertibility that the holders of the colonial currency were supposed to enjoy and which was the original imperial justification for the absolute necessity of the 110% sterling cover.

Completely ignored by all was that, in early 1944, after Mars' criticisms, the Bank of England had itself complained to the Treasury of the unduly high rates of commission charged by the East African Currency Board, as well as the higher rates charged for converting local colonial currency into sterling than vice versa.[177] In 1944 also, Barclays had proposed an amalgamation of Currency Boards because of the problem of exorbitant cross rates between various colonial currency areas. The Colonial Office had then agreed that the rates were 'unduly high, particularly where the rates fixed by the Boards in London [were] themselves on the high side' and ought to be reduced.[178] The Colonial Office, the Treasury and the Bank of England while opposing the amalgamation of the Currency Boards had then agreed that they should expedite the gradual reduction of cross rates.

This was all forgotten by 1951 and the Bank agreed with the Treasury. An internal Colonial Office Minute expressed concern that the 'opportunity [was] being missed of examining the reasons for differences in existing practices which [varied] from the Cyprus practice of charging no commission rates (and probably the lowest banking charges in the colonies) [to] the practice in Malaya where the currency commissions are very large and the bank spread a fraction of them'.[179]

The Greaves study was eventually approved by the Colonial Economic Research Committee and published by the Colonial Office, who made an effort to publicize it.[180] Within the Colonial Office it was minuted that[181] 'not the least useful service performed by this study will be the comments on some of the theories of Dr Mars'. A Colonial Office preface deceptively

stated that while the study had been financed by a grant from Colonial Development and Welfare Funds, the views expressed in it were *'those of the author and not of any Government authority'*. For several years, despite her own internal reservations, Greaves continued defending the currency board system, while even the Colonial Office internally thought that Greaves was 'overdoing her criticism a little'. One knowledgeable Colonial Office expert pointed out that it was an old exaggeration to claim, as Greaves did, that 'the colonies are as completely and directly part of the English monetary system and the London Money Markets as are the Counties at home'.[182]

The imperial attempt to influence Greaves was not an isolated example of deviousness, lies and propaganda by the Colonial Office, in defending the colonial currency policies. The academic Hazlewood, who had participated in a 1953 radio program critical of colonial currency policy, was castigated by the Colonial Office.[183] The Colonial Office made a number of clearly false statements: that there was a 'limit administratively to the amount of development works that can be undertaken at the same time'; that 'the real cause of the increase in the colonial balances [was] not really an artificial holding down of the rate of imports either as a result of exchange control on non-sterling imports or as a result of shortages of sterling imports'; and the real causes were the 'high commodity prices, which led to a high accumulation of reserves'. It was also falsely claimed that the investments were held in Britain 'not by virtue of any compulsion', and that Hazlewood had ignored that 'these investments are pretty good business for the colonies, who get quite a big return on them and can, if they wish, withdraw them at any time'.

Hazlewood was informed that the currency system had 'never given rise' to the kinds of criticisms leveled at it until then. The Colonial Office deprecated that allegations that Britain was cheating her colonies should come from 'a fellow countryman', especially since 'we get quite enough of that from the Fourth Committee of the United Nations and the Daily Worker'. The Colonial Office kept track of all criticisms of their sterling reserves policies, including that by T. Balogh from Balliol College.[184]

In 1954, the Colonial Economic Research Committee and a grant from the Colonial Development and Welfare Fund financed research on the monetary systems of Malaya, Sarawak and Hong Kong. With inputs from Sidney Caine, the output was Frank H. H. King (1957) which largely reinforced the conclusions of Ida Greaves.

Clauson and Caine into the academic breach

Following the 1943 Colonial Office discussion of Mars' criticisms, a number of articles appeared on colonial currency systems. Some were written by Colonial Office civil servants, such as Clauson (1944)[185] and Caine, the latter writing a series of anonymous articles in The Banker, (Caine: 1948–49) with the logistical support of the Colonial Office.[186] Caine also wrote as a post-war expert and official adviser on colonial currency systems in Malaya

(Caine 1958). His public writings could do with further analysis, given his usually contrary internal Colonial Office views revealed in this book.

The authorities also put out an official White Paper,[187] which made numerous misleading assertions. Ignoring public criticisms that the white settler dominions had seen fit to run down their sterling balances while the colonies had been forced to increase theirs,[188] the White Paper alleged that: the colonies held the sterling reserves 'as an insurance against falls in export earnings, as savings for future investment and to maintain the exchange values of their currencies'; that holding the reserves in London simply resulted from the colonies' membership of the sterling area, their close link with the UK banking system, and because of their convenience; 'there was no question of [the reserves] being blocked'; the 110% backing of the colonial currency was simply the 'effect' of the currency board system in that local currency could only be obtained in exchange for sterling; as for the sterling reserves arising from savings bank funds, the paper alleged that while colonial legislation allowed up to one-third of investments in publicly issued local securities, 'few territories have made use of this provision and most have continued to invest the bulk of their funds in London, chiefly in order to maintain liquidity'.

These statements were patently false. The Colonial Office noted internally that in their White Paper[189] 'we have not tried and I think rightly, to go into the question of the benefits the U.K. receives from these assets'. While initially wanting to block the White Paper, later on, 'the Treasury was satisfied because the publication proved to be a successful propaganda piece against accusations of colonial exploitation.'[190]

The Colonial Office was also aware that an external media review[191] of their White Paper had reached conclusions favorable to the imperial authorities: that there had been no U.K. interference in the colonial sterling balances as had been claimed by The Daily Worker, Palme Dutt and other critics; that there had not been any 'hidden common policy at work increasing the balances' by force; that it was unlikely that the U.K. Government had much control over such colonial decisions and policies; and that the rise in sterling balances was not incompatible with development in the colonies. Internally, the Colonial Office had admitted all these criticisms.

The imperial authorities made sure that the White Paper was not publicized in colonies where the public was not aware of questions raised in other colonies about colonial sterling reserves. Some colonial administrators willingly colluded.[192] The imperial authorities continued to defend their policies in far-flung colonies in the Pacific, such as the desperately poor and development-deprived Solomon Islands and the Gilbert and Ellice Islands.[193]

Sir Sidney Caine versus Sir Arthur Lewis on colonial development

A recent work by Robert L. Tignor (2005)[194] and an older one not previously accessed (Martin Petter 1981) provide material which further clarifies, not

just the critical role played by Sidney Caine in defending imperial interests and implementing policies on the colonial sterling reserves, but also his refusal to acknowledge how this impacted on colonial development and underdevelopment, an issue discussed in the next chapter.

Caine's early career, after graduating from the London School of Economics,[195] would have given him a close understanding of Britain's wider sterling interests and the role that colonial sterling reserves and the colonial empire could play in Britain's war effort and sterling's defense. He served in the West Indies and became Financial Secretary of Hong Kong in 1936 at a time of critical financial problems created by the Sino-Japanese war.[196] In 1942 he was in Washington, where he saw to the creation of the Colonial Supply Liaison, later to become the British Colonies Supply Mission. He came into close contact with all the fields of the British war effort, Whitehall, and with Clauson, sat as the Colonial Office representative on the official Cabinet Committee on Export Surpluses, later re-styled the Commodity Policy and Relief Committee.

He communicated often with John Maynard Keynes who had 'high praise for a draft on economic policy in the colonial empire prepared under Caine's direction in the Economic Department'.[197] The Colonial Office's Economic Department was also in regular contact with the economists who staffed the War Cabinet's Economic Secretariat[198] Caine was one rung off the bottom of the Colonial Office in 1939 but just eight years later had reached the position of Deputy Under-Secretary by 1947.

Petter noted that Caine gave an early indication of his personal focus on defending the wider imperial interests when he wrote in a 1941 Memorandum that 'we cannot afford to ignore … that the United Kingdom is likely to be financially a great deal worse off after the war; our overseas assets are being rapidly liquidated, the Dominions and India are paying off their sterling debts and in brief we are becoming a debtor instead of a creditor nation'.[199]

Petter noted two examples of Caine's influence in the Colonial Office. First was a '"Blitzkrieg" circular telegram of 5 June 1940, calling on colonial governors to maximize their contribution of supplies and minimize their call on U.K. resources in men, materials and money. C.D.W. was effectively put into cold storage'. The second was that the Social Services Department which was charged with responsibility for colonial development, had to give way to 'the Economic Department [which] was under pressure from the rest of Whitehall, especially the Treasury, to bring the colonies into line with the war effort', i.e. to forego colonial development and colonial consumption, in the interests of Britain. 'Controls, especially over imports, would have to be tightened up, taxes raised, and a 'general consciousness of common sacrifice promoted'. Petter thought that Sidney Caine presided over an 'Economics Department' which served Britain's imperial interests rather than those of the colonies.

Caine ensured that the newly formed Colonial Economic Advisory Committee (C.E.A.C.) 'acted as the focal point for development planning in the Office' and included ex-colonial administrators, businessmen and economists like LSE's Robbins (Caine's former professor). It also included young rising star and West Indian economist, Arthur Lewis[200], who had already crossed swords with the Colonial Office with his scathing criticisms of the Moyne Commission Report on the West Indies. Although Lewis had been rejected for an appointment in the Colonial Office[201] he had the full support of the London School of Economics to which the Colonial Office looked to for guidance.

While initial expectation for the independent members of the C.E.A.C had been for the articulation of a post-war 'framework for colonial economic development' once the war was over', Caine's view, expressed in a guiding memorandum that he and Clauson[202] prepared for the Secretary of State and the C.E.A.C was 'that the new committee would operate in an ad hoc way, 'confining itself to answering the specific questions that the Office chooses to ask'.[203]

William Arthur Lewis disagreed with Caine, arguing that the C.E.A.C. should set up sub-committees to 'investigate the most critical areas of economic development ... mining, secondary industries, agricultural finance, trade relations, agricultural marketing, public finance, and the machinery for economic development'.[204] The disputes between Caine and Lewis continued and reached its apex over a memorandum 'Social and Economic Planning in the Empire'[205] written by Clauson and Caine, in which the role of the state would be minimal. Lewis received support from the other C.E.A.C. members, one of whom (Henderson) accused the Caine-Clauson vision as 'unsuited to the conditions of the modern day ... [and] particularly ill-suited to the interest of the colonies'.[206] The C.E.A.C became deadlocked, requiring the Secretary of State to adjudicate.

Caine and Clauson argued that following Lewis's recommendations 'would raise political and social problems of the first importance' which were allegedly 'outside of their competence'. Lewis believed that colonial development required massive investment of capital and if British investment were not forthcoming, then foreign and particularly American capital would have to be encouraged. Tignor noted that the Colonial Office regarded this proposal 'nearly treasonous' since the unspoken Colonial Office sentiment was that colonial development projects 'were intended to prolong the life of the empire and support the balance sheets of British firms not ease the Americans into territories once controlled by the British'.[207]

With the Caine/Clauson views prevailing with the Secretary of the State, Lewis resigned in disgust.[208] Lewis' later communications, as with the Head of LSE to which he returned, suggested that Caine had stacked the C.E.A.C 'so that it would not challenge the colonial status quo', and deliberately sabotaged its work. Lewis felt that Caine made appointments in colonies of like-minded persons.

Lewis believed that Clauson and Caine were using neoclassical economics tools more suited to analyze developed industrial economies, for 'more subsistence, agriculturally oriented economies'. Lewis' view, written as a critique[209] of the Colonial Office approach, pointed out that in the colonies 'The poverty is deep-seated; the resources limited,; the populations growing rapidly; and the time frame too cramped for the free market to function as the primary motor of economic growth. The state would have to take the lead, accelerating income growth, centralizing economic decision-making, and allocating scarce resources more efficiently than private businesspersons could.'[210]

While the accounts by Petter and Tignor focus on differences in colonial development ideologies between Sidney Caine and Arthur Lewis, the material in this chapter suggests a far more mundane reason to do with personal conviction or career self-interest: Sidney Caine was simply focused on serving British imperial interests, and those of the Treasury and the Bank of England, by discouraging the run down of colonial sterling balances, vital to British balance of payments and its capital investment abroad.

It was not a coincidence that Sir Sidney Caine was appointed the Vice Chancellor of the University of Malaya in 1952 from where he continued to recommend conservative policies for the Malayan Currency Board, and writing deliberately and conservatively for the creation of a pretty innocuous central bank for Malaya (1956, with G.M. Watson) and opposing any monetary changes in Malaya that would result in the decline of sterling reserves by Malaya (Caine 1958). Balogh (1959) correctly critiqued Caine's academic output on Malaya's monetary system as 'political' and part of the 'propaganda emanating from the London School of Economics'.[211] In 1957, Sir Sidney Caine was made Director of the London School of Economics.

Implications for colonial underdevelopment

This section draws heavily on Krozewski (2001), which examined sterling in depth in the period 1947 to 1958.[212] While verifying much of the conclusions of this chapter Krozewski also clarifies the wider implications for Britain and the damaging development implications for the colonies.

Krozewski pointed out that the clear disparity between the interests of British manufacturing exporters, and 'the City of London's pursuit of overseas investment and the financing of international trade and services' was usually resolved in favor of the City, with 'capital exports as the sine qua non of British economic policy'.[213]

Colonial sterling reserves was 'a substitute for credits from the United States, greater economic austerity in the independent sterling Commonwealth, and more stringent domestic adjustment for the management of Britain's recovery and the establishment of the welfare state'. Colonies were forced to exercise 'systematic import restraint, dollar discrimination and import

substitution, while boosting specific export commodities from the colonies and keeping capital flows to the colonies in check'. He noted 'A considerable amount of dollar imports (notably consumer goods, machinery, vehicles and chemicals) were foregone by the colonies, without having been compensated in return by UK supplies ... especially West Africa and Malaya, were the pillars of the discriminatory sterling area. Colonial trade with the dollar area showed huge surpluses and a marked reduction in the value of imports from the late 1940s down to the mid-1950s'.[214]

Until the end of the war India was the pillar of these arrangements by maintaining and supplying the British Indian army, providing small arms and clothing for the allied armies, and raw materials and food, while sustaining severe import restrictions, which were in part responsible for the Bengal famine. Between 1945 and 1955, however, India drew down her sterling balances while the colonies were forced to dramatically increase theirs. It was also clear (Krozewski, p.39) that between 1948 and 1952, while colonies had large surpluses with the dollar area, the independent sterling area had deficits with the dollar areas.

Krozewski documents that long term capital flows from Britain to the colonies was 'a negligible factor', in comparison to their sterling balances: Of the UK investments in the Commonwealth and Empire, between 1946 and 1955 colonies received a total investment of only £450 million, in contrast to their sterling balances of £1,200 million; India received a mere £100 million compared to her sterling balances of £550 million.[215] By contrast, investments in Australia amounted to £350 million, roughly the same as their sterling balance (c. £400 million), while South Africa received investments of £500 million (reserve of £50 million) and Rhodesia received £250 million (reserve of a mere £30 million). Thus the sterling reserves of the colonies and India were effectively financing British investment into South Africa and Rhodesia. The implicit benefit of the sterling area – the holding of sterling in exchange for capital from Britain – was not realized in the colonies.

Foreign capital flows to colonies were also negligible, being a mere £25 million pounds, while private investment was £275 million, CDW and other grants were £287 million.[216] While loans in London amounted to £151 million, a half of it was inter-colonial rather than from the London money market per se, because of investment policy by the Crown Agents, despite discouragement by the Treasury and the Bank of England.

Krozewski had also concluded that there was a coordinated British policy to build up sterling reserves through unrequited colonial exports, trade discrimination by import licensing, imports of essentials only from sterling area, cancellation of reserves, and interest free loans to Britain. Colonies were forced to meet their development requirements from their own funds, while finance from Colonial Development Corporation and Colonial Development and Welfare would only be a supplement and borrowing in London a last resort (pp. 73–81). In the colonies Britain relied heavily on

taxation to supplement import controls while the inflated government reserves were then frozen to maintain the sterling balances.

Krozewski argued that to prevent the run-down of colonial sterling reserves Britain controlled the colonial state and constitutional evolution. In 1947, Britain established commodity marketing boards to control the bargaining process between producers and colonial government over prices. The influence of 'unofficial majorities' in colonies was limited by ensuring that the Colonial Office made 'appropriate appointments to the boards.' 'London explicitly retained its statutory and quasi-statutory powers with respect to external economic relations, monetary and fiscal matters, the control of inflation, and London market loans.'

Where some colonies, such as Ceylon, were determined to pursue an independent path with respect to the dollar and central banks 'policy-makers planned precautionary strategies, adamant that the Ceylonese experience must not be repeated. Plans included the local administering of currency boards in West Africa, and officials cogitated a strategy on how to phase in a "central bank" that issued currency yet at the same time remained a currency board in all but name.' (Krozewski, p.95). At the Conference on Techniques of Development Finance in 1951, 'when Kenya expressed its wish to be allowed to introduce a fiduciary issue for its currency, the Colonial Office found the issue so delicate that it decided not to include it in the final report'.[217]

Britain employed different strategies in different parts of the empire, but with the same objective of maintaining the currency and monetary arrangements in colonies, even if political control was loosened. In the Gold Coast (Ghana), political leader J. B. Danquah led the protests, and learning from Ceylon, demanded a Gold Coast Bank of Issue and a 'managed' Gold Coast currency, effectively challenging the currency board's arrangements. The Bank of England chose to support Kwame Nkrumah who wanted political reform, which would not cost Britain much, while Danquah wanted fundamental economic and financial reforms.[218] In the end, the British alliance with Nkrumah allowed stability of marketing and monetary arrangements 'keeping at bay both indigenous commercial cocoa growers and the indigenous export traders'. Similarly in Malaya, Britain fostered Malayan nationalism, as an alternative to Chinese and Tamil influences, which were more likely to challenge British monetary arrangements.

Thus other major beneficiaries of imperial policies on colonial sterling reserves were the City interests for whom gold reserves were insurance policies against monetary crises caused by continuous export of capital and the declining industrial competitiveness of the British economy. Colonial sterling funds shouldered a significant part of the burden of maintaining the convertibility of sterling, on which London's position as a world financial center depended, the provision of cheap finance to the British Government, and the facilitation of the investment of British capital in

United States and the white settler dominions. Imperial officials held to the 'unwritten rule' that colonial interests ranked third after those of the UK and Dominions.[219]

Conclusion

This chapter has shown that colonies were forced by imperial authorities to discard higher interest earning sterling securities of the dominions and the colonies themselves, in order to acquire British Government securities, which themselves were moved from higher interest earning longs, to low interest Treasury Bills or non-interest earning cash deposits.

The imperial authorities interfered with the legitimate powers of the Crown Agents and Colonial Governments. Colonial governments were deliberately deceived and kept in the dark while imperial policies were created and dissolved. Important Colonial Office officials, such as Sidney Caine, consciously safeguarded imperial and City interests as articulated by the Treasury and the Bank of England. Krozewski himself had observed that the Civil Service 'recruited among Oxbridge graduates and sections of British society related to the financial sector rather than among business and manufacturing.... The state's dominant institutions were those which played a role in the management of Britain's financial sector and sterling relationships.'[220]

Colonial Office officials wrote anonymously and openly as academics to support imperial policy, while fostering academic studies to counter the mounting academic criticism of imperial policies, which were thereby maintained for more than two decades after the end of WWII, to the detriment of the colonies.

Sterling was massively devalued in 1931, 1949 and 1967, leading to significant capital losses for all the colonies who had been forced to hold sterling reserves, and prevented from diversifying to dollars and other hard currency, as done by the dominions. The evidence in this chapter totally undermines both the imperial and theoretical justification for creating the currency board system in the first place, which was ensuring absolute convertibility and the earning of income on currency reserves in London.

It would not be correct to conclude that Britain set out deliberately to hold back the development of her colonies although that was the result. The inescapable conclusion is that the imperial decision maker in London was not the Colonial Office, supposedly the legal authority for the colonies. The real decisions were made by the Treasury, whose priority was cheap finance for the British Government; and the Bank of England, whose priorities were the City's interests – income from colonial reserves in London, minimisation of their holdings of low interest British Government securities, and the maintenance of liquidity to facilitate the export of British capital. Both these powerful forces were able to subvert the Colonial Office

to their objectives, with the inevitable outcome that colonies were denied use of their own London resources, whose accumulation was discouraged, while prevented from access to London loans for development. The natural outcome of these imperial policies on colonial sterling reserves was colonial underdevelopment, an effect frequently admitted by Colonial Office functionaries. To that extent, imperial control of colonial currency systems and reserves may be termed imperialist control.

8
Reassessment of the Currency Board Debate

Introduction

This chapter gives a detailed reassessment of the 1950s and 1960s debate over the economics of the currency board system for several reasons. First it sets the record straight for students of colonial currency systems who will inevitably come across many accounts of currency and monetary policies in different colonies, most of which are inaccurate or completely wrong. Second, this book emphasizes to students of economics the critical importance of grounding economic analysis solidly in accurate history, if they are not to be led astray by seemingly rational explanations which history has a habit of disproving. Third, many still have relevance for general discussions about the use of monetary and fiscal policies for fostering economic growth and development. Fourth, many of the arguments discussed here about colonial monetary issues in relation to sterling, may also apply to similar relations between other world reserve currencies such as the dollar, euro and renminbi, their respective reserve centers in the United States, the European Union and China, and their monetary relations with the international holders of the respective reserves held in these centers. The broader economic implications of significant changes in the large holdings of US dollar reserves and US Government debt by the Arab countries, Japan and China have been of great interest to monetary economists. The previous chapter has similarly outlined the changing attitude of Britain to the enormous holding of sterling reserves by colonies.[1]

The 1948 criticism of the Nigerian currency board system by Oxford academic, Mars, outlined in the previous chapter, resulted in a major heated debate continuing well into the sixties, seventies and eighties. Some early defensive position papers were by imperial civil servants themselves involved in colonial currency policy such as Clauson (1944) and written anonymously, by Sidney Caine (1948–49) and Caine (1957) as well as those fostered by the imperial authorities such as Greaves (1951, 1953a, 1953b, 1954, 1958) and King (1955, 1957, 1958).

Also contributing to the general debate, were *The Round Table* (1947), Exter (1949), Shannon (1951, 1952), Hazlewood (1952, 1953–54, 1954), 'Analyst' (1953), Earle (1954), Niculescu (1954), Newlyn and Rowan (1954), *Statistical and Economic Review* (1955); Watson and Caine (1956), Sherwood (1957), Wilson (1957), Balogh (1959); Thomas (1962), Loxley (1965), Chiang Hai Ding (1966), Drake (1966, 1969), Rudner (1975), Bolnick (1975) and Nelson (1987).

These debates largely focused on the currency board requirement that the colonial currency circulation had to be backed at least 110% by sterling, with the strict operational rule that colonial currency could only be obtained in exchange for gold or sterling.[2]

The debate on whether the currency board system discouraged colonial development, focused on six sets of issues: the suitability of the currency board money in satisfying the functions of money internally and internationally; the export of colonial savings and capital to the London money market; the holding of British Government securities; the quantitative and qualitative restrictions on the supply of colonial currency and its lack of elasticity to correspond to domestic economic growth and needs; and the tendency for the system to discourage the implementation of monetary policy for development because of imperial opposition to central banks in colonies.

Unfortunately, these cannot be discussed in neat separate compartments, as many are crosscutting: discussions of the different issues inevitably results in some repetition. Nevertheless, the separate debates are still relevant for many contemporary monetary issues, such as the links between the United States and those countries whose foreign reserves are largely in US dollars, or the capacity and effectiveness for fostering economic growth and development through monetary policy, as a complement to fiscal policy.

Most of the criticisms made by academics in the 1950s and 1960s, had already been made internally in the Colonial Office much earlier, even if denied by the authorities: both in public statements, or through alternative defensive studies fostered by the authorities themselves. It will be seen that in the light of the historical facts, many of the academic arguments made in defense of the currency system appear quite irrelevant, misleading or plain wrong.

It should also be kept in mind that the actual economic impact of particular imperial policies may not have been that intended by the decision-makers, nor support the arguments of those who opposed the policy changes. While some arguments are definitively resolved here through the historical facts, the jury is still out on some issues concerning the currency board's total net impact, both positive and negative, and require further research and analysis using the relevant hard data and debate.

It is useful to begin with the perceived positive aspects of the currency board system, some of which received a boost in the 1990s with the strong push for the currency board as a solution to the monetary problems faced by former socialist centrally planned economies which had changed or were

changing to capitalist market economies. These arguments are discussed briefly at the end of this chapter. It is also useful to keep in mind that many of the debates had to factor in possible responses of private commercial banks and their patterns of bank lending and deposit creation, especially where they differed between domestic producers for domestic markets and foreign capital producing for external export markets. This study indicates that colonial banking in the colonial currency board context is deserving of its own in-depth study.

Positive aspects of the currency board system

Defenders of the currency board system saw several benefits:[3] First, it gave confidence in the colonial currency by ensuring its complete and absolute convertibility into sterling. This then not only corrected any tendency towards the accumulation of deficits, but also reduced the risk of any exchange loss on foreign investors' assets or incomes. Second, colonial governments could earn external revenues from the sterling securities held.[4] Third, it was simple to operate and relieved colonial governments of responsibility over the currency, while the automatic character of the system effectively ensured strict discipline and control over the currency issue, and eliminated the risk of inflation. Last, it was argued that the currency board's 'caution and conservatism' and the requirement of a minimum of 100% external cover provided a safeguard for the basic functions of money as a means of exchange, means of payment, standard of value, and store of value.[5]

For most students, introductions to the theory of money and its innate characteristics – such as, means of payment, medium of exchange, standard of value, and store of value – are covered fairly perfunctorily. Rarely do monetary texts discuss the impact of historical changes in these characteristics, possibly because they have rarely occurred during the lifetime of most observers. Perhaps the only variables that receive comprehensive and in-depth treatment are price inflation, the exchange value of currencies (and impacts of devaluation or revaluation) and monetary integration of different currency areas. This book, with its long historical overview of the creation, changes and sometimes destruction of currencies, has provided concrete examples of situations facing imperial and colonial decision-makers, in which some if not all the fundamental characteristics of money affected by decision-making. Often entire systems of money were changing, under imperial edict, in the long run to the detriment of the colonial holders of the currency who were denied optimal benefits from these 'ideal functions of money'. This book is historical evidence that money has never been just a 'veil to the real economy'.

These benefits, while intuitively correct, are undermined by the historical facts explained in the counterfactuals to the Generalized Misconceptions. The currency board's guarantee of convertibility would have been important if the

currency being replaced had been any less convertible. However, what were being replaced were internationally accepted currencies like gold sovereigns or British shillings or British or Spanish silver dollars, the latter two originally guaranteed to be fully convertible into sterling. The currency board money became necessary only because the imperial authorities ex-post denied all responsibility for their own currency which they had issued well into the twentieth century, and because the authorities wanted a distinctly colonial currency which could not be returned to Britain, and be a call on its slender gold reserves.[6]

The colonial currency board system therefore represented an interesting paradox. While Britain exercised complete control over all political and economic matters in the colonies such as trade policies, in currency matters, however, Britain treated the colony as a foreign country whose currency required special reserves created at colonial cost. Neighboring foreign territories had no wish to acquire coin or notes which could only be converted into international currency in London.

While Greaves thought that the currency board system solved all problems of maintaining stable exchange rates 'between notes and coins', this was a meaningless conversion as neither could be used internationally. Greaves was also incorrect in thinking that the currency board system solved the convertibility problem between a local currency on a silver standard and sterling on a gold standard, when the colonial currency was not at all on a silver standard except for brief periods at the end of the nineteenth century.

Hazlewood had rubbished the income argument, pointing out that the real question was whether an amount equal to the whole of the local currency circulation should be invested in external assets or whether part of it should be devoted to local investment. If colonial governments preferred the external income earning capacity of the assets, then they were opting for the 'private' benefit as opposed to the social benefit obtained by investing locally, if the divergence was genuine. But then it would be fundamentally inconsistent to simultaneously claim that colonies needed outside capital for development.

Greaves had also pointed out the anomalies that banks earned a 'much higher return by employing their funds in the colonial territories than they obtain[ed] from long or short term investments in London' and that the rates obtained by London Offices on credits for colonial use were 1% to 2% less than the rates charged for similar purposes by the overseas branches.[7]

The evidence indicates that at no stage of the currency board's evolution did the authorities really fear that there would be any inflation in colonies, either before or after the currency board's establishment, despite their frequent use of this argument to justify their conservative reserves policies.

The general perception of all metropolitan interests in the colonies was that the universal functions of money (standard of value, medium of exchange locally, regionally and internationally), were better served by

the already circulating British currency than the new colonial currencies created through the currency boards.

Thus, all the so-called positive convertibility advantages of the currency board are not relevant in the debate, given that the imperial authorities had previously removed currencies which were internationally acceptable, in order to establish a completely localized currency which then required international reserves.

Excessive reserves and export of colonial capital to London

When the WACB system was originally established, Keynes (1913b) had thought that the 'vicious' requirement of complete external cover would be ameliorated, once adequate reserves had been built up, by making part of the currency fiduciary with a backing of local colonial government securities, as in the British system.[8] Yet, the historical reality was otherwise: the currency reserves of the WACB between 1926 and 1939 were always above 100%, reaching 120% in 1935; the authorities tried to make 115% reserves a formal requirement for Malaya in the 1930s and, in 1950, established a similarly conservative British Caribbean Currency Board.[9] Instead of holding local colonial government securities, the reserves almost entirely consisted of sterling bank deposits, British Treasury Bills or short-term British Government securities.

One of Mars' fundamental criticisms was that a 'hard core' of currency was always needed for the purely local circulation of goods and services and ordinary hoarding and should not have required an external cover. This could have been easily estimated by examining the minimum circulation of the previous great depression, changes in population, changes in monetization of transactions, withdrawals of other currencies, trends in the number of businesses and value of financial transactions, the output of domestic goods industries, the hoarding of money, and the needs for repatriation of West African currency. Mars had argued that a 100% cover for the localized currency was not necessary simply because it was 'quite impossible for the whole of the West African currency to be presented for conversion into London sterling at any one time'.[10]

The same point was also made by other studies, such as Newlyn and Rowan,[11] that previous historical experience and the relevant economic parameters and criteria indicated that the hard core and hence excess of sterling reserves amounted to at least 50% of most colonial currency circulations, and investing and sterilizing this proportion in London imposed a significant burden on colonial public finance. It was also argued that it would be irrational to calculate hard cores to guard against all economic blizzards, especially since many colonies should be able to draw upon other sterling reserves in emergencies or borrow from London banks as lenders of last resort, which the authorities frequently claimed was available to them.[12]

This excess portion could quite reasonably have been converted to colonial government securities with several other advantages: the interest rate could be kept minimal and would eliminate the undesirable disadvantage which existed for Nigeria (and other colonies) that the interest paid by the colonial Government for loans from London was always higher than the interest received on their investments;[13] there would be no necessity to contribute to a sinking fund; there would be reduced control of borrowing by the Colonial Office and other London authorities; there would be absence of pressure to use loans for only self-liquidating projects or buying British goods or repaying old loans; the demand for colonial government securities would foster a local market for colonial securities in which native administrations, local traders and expatriate companies might invest their surplus cash; costs to the government would be minimal since the rate of interest could be kept low enough to just finance the administrative costs of the currency board;[14] extra money could be injected to prevent a deflation of local prices; anti-cyclical monetary and fiscal policies could be implemented; and last but not least, the resources released could have been better utilized generating real development in the local capital-starved economy. Most studies concluded that the fiduciary issues could release substantial resources for colonies like those in West Africa.[15] Moreover, with the normal colonial marginal propensities to save, tax and invest, then a given amount of excess sterling reserves would 'be worth more in terms of development finance than their face value', especially if used for export-associated investment.[16]

Defenders like Greaves had clearly incorrectly attributed the 110% backing to the British monetary orthodoxy that currency reserves should ensure that notes in circulation were 'the shadow of the gold' (a patently incorrect claim).[17] Caine publicly claimed that its objective was to safeguard the basic functions of money, although he had privately conceded the value of this criticism internally in the Colonial Office.[18]

Greaves also wrongly argued that the sterling reserves did not imply a sacrifice of real resources or constraints on colonial imports, or an overseas loan to Britain,[19] that the increases of the colonial money supply were financed from Britain and therefore the external cover for the currency could not be counted as a cost to the colony, and since the sterling reserves were matched by equivalent holdings of colonial currency, purchasing power in the colony was not reduced.

Hazlewood rebutted that while the initiator of the local currency may have been from abroad, once the payment had been made for goods and services, the expanded circulation could only be maintained locally if the eventual holders decided to forgo the imports that the currency backing could buy.[20] Greaves had therefore been confusing the individual holder of currency with the nation's holding of sterling.

Defenders did eventually acknowledge that the traditional currency board system could discourage economic activity, that it might imply a real

burden, that it was not 'axiomatic good sense to hold full 100% backing for the currency' and that it became more reasonable to modify the system so that expansion of the money supply could be effected without sterilizing exactly parallel resources, sterling or otherwise. All the weaknesses and possibilities identified by critics had already been acknowledged internally in the Colonial Office, even if denied publicly.

Despite making these concessions, Sir Sidney Caine's advice led to Malaya's sterling reserves as a proportion of the assets of the whole monetary system being increased from 1947 to 1955 as did the net overseas assets of the commercial banks (Wilson: 1957). *The Malaya British Borneo Currency Agreement, 1960* introduced the new requirement, which had not been there previously, that if the assets of the Currency Board were valued at less than the liabilities, the participating governments would have to make up the difference.[21] The cover for the Malaya and British Borneo currency, which had been between 100% and 110% up till 1960, went up further: to between 110% and 115% from 1961 to 1965.[22]

The deflationary bias arguments

Critics criticized the lack of monetary elasticity that retarded colonial growth and developments. Mars (1948:194) had pointed out that there were a number of factors which called for a steady compensatory increase in the supply of the new colonial currency: the rapid growth of monetary exchange in a newly colonized country, the growth in the output of domestically produced and consumed goods, the emergence of a financial circulation, the existence of widespread hoarding, the destruction of foreign and indigenous currencies, and leakage into neighboring territories. However, Mars (1948:186,195,199) argued that, under the currency board system the supply of colonial currency could only be expanded if the colony had a balance of payments surplus. Increments to the localized currency had to be 'virtually obtained at the expense of a commodity loan by Nigerian producers to London ... an ultimate sacrifice of exported goods and services', in order to obtain essentially a piece of paper necessary to facilitate domestic exchange.[23] Mars further argued that the sacrifice was more costly for poor economies producing primary commodities with secularly worsening terms of trade.[24] This therefore imposed a 'steady deflationary drag on prices of home-produced and home-consumed commodities and services'.

Other writers also thought that increments to domestic production for home consumption faced a rigidity that the money supply could not be expanded unless imports were reduced, sterling borrowed or otherwise obtained for exchange into local currency[25] and that this would eventually 'inhibit development by discouraging the spread of the market in that sector'.[26]

Defenders of the currency board had argued the money supply (currency plus demand deposits) could always have been expanded through credit expansion by the banks. The supply of money was not required to be 100% backed by foreign assets, nor was it empirically a cumulated balance of payments surplus.[27] Treadgold (2006) had pointed out that the money supply could effectively be increased through increases in the velocity of money and the money multiplier.

Critics had several responses to these arguments. First, with banks operating formal and informal reserve ratios, the amount of demand deposits which could be created was still ultimately limited by the amount of currency available.[28] Second, the historical reality for many colonies such as Malaya, was that bank credit creation had been an insignificant proportion of the money supply and had even decreased at times.[29] Third, Mars (1948:208) had early on pointed out that with bank credit dominated by expatriate banks and traders, bank lending and ideas of credit-worthiness still ensured that credit money was highly correlated with international trade and the balance of payments, while expatriate banks were 'probably more anxious to preserve the existing industrial structure of Great Britain by retaining colonial markets for British export goods, then to develop secondary industries' in colonies. Indigenous borrowers were therefore unable to obtain access to demand deposit creation.[30] Others pointed out, as for Ghana, that the banks 'discriminated solely on the basis of race and denied even the most elementary, risk-free services to Africans'.[31] It was only in the late 1950s that the link between bank lending and balance of payments would be weakened in colonies like Malaya.[32]

Critics noted that in contrast to colonies, for Britain on the gold standard, the annual increment of non-fiduciary gold currency was firstly, a small proportion both of the volume of state money already existing and of national income; secondly, an increment of cash led to a multiple increment of bank money[33]; and thirdly, Britain's reserves were determined by the requirements of foreign trade and payments and bore no immediate relation to the total amount of currency circulating at home.[34]

Hazlewood had doubted the relevance of the deflationary bias argument. If production of non-traded goods was inhibited by the lack of effective demand, this deficiency could not be cured by monetary manipulations since he argued that it was not an example of a Keynesian 'deflationary gap'. If an economy was injected with extra purchasing power, the likely result would be sectional price rises and balance of payments problems.[35] Hazlewood quoted Greaves that the West Indian evidence suggested that the availability or non-availability of external resources was not a factor in the banks' lending policies.[36] On the other hand the currency board system was unable to stimulate and facilitate the expansion of bank credit necessary to maintain a stable price level in the face of a secular increase in real output.

Drake (1969:50) however pointed out that Hazlewood's arguments ignored that colonial currencies could be expanded only by giving up foreign goods and services, and not by the non-consumption of locally produced goods. While this criticism was strongest for expansion of output in the non-trade sector, it applied to any growth of national income without a simultaneous balance of payments surplus, whether or not exports were growing. Drake thought that Hazlewood distinguished between deflationary bias due to 'monetary inelasticity' and that due to the Keynesian 'deficiency of demand', with only the latter to be cured by monetary manipulations. Drake (1969:60) focused on the former using the Fisher equation: given a constant or falling velocity of circulation and a desire to maintain a stable price level, the money supply of a country simply might not be able to increase in step with a growing national income.[37] Drake thought that this argument would hold provided that a balance of payments surplus was not artificially created using import or exchange controls, that government was not repatriating government-owned foreign reserves, and not varying the exchange rate- all generally practiced by the imperial authorities in colonies.

Drake (1969:61,62) nevertheless also thought that the currency board system had exactly the same loopholes which gold standard countries had used for increasing their money supply to match increases in output. The development of banking had increased the velocity of circulation; the growth of banking had allowed increasing domestic bank deposits relative to a given level of external reserves; and the head offices of expatriate banks could make sterling loans to territorial branches independently of the territory's balance of payments. Thus a fall in money supply relative to growing real output could also be permitted by price deflation through flexibility in money wage and profit rates.[38]

Newlyn and Rowan on the other hand noted that colonies all had 'surplus' funds which had to be employed outside the colonies.[39] If the credit policy of banks was determined by sound banking principles based on risk aversion or any other factor such as discrimination,[40] then the lack of credit and demand for non-tradables could not be seen as the result of the currency system per se.[41] The solution merely required different financial institutions ready to pursue alternative lending policies.[42]

While the above theoretical arguments seem to have logical merit, both for and against, the historical reality was that the adequacy of the colonial money supply (currency plus demand deposits) was not at all an important objective in the formulation of colonial currency policies. On the contrary, the imperial authorities demanded that all available colonial savings were exported to London, even if this created monetary stringency and crisis rates of discount in the colonies. The authorities were fully aware that were cash balances to be left in the colonial monetary system, this would lead to credit creation, eventually feeding into a loss of the external reserves, as had been accurately theorized in the seminal article by Polak (1957). The

authorities also deliberately manipulated commission charges of currency boards to ensure that metropolitan banks operating in colonies, did not invest their short-term liquid holdings in the colonies, but kept them in London or invested internationally, especially in the dominions and North and South America. The authorities were as averse to the free expansion of colonial money supplies as they were to the free expansion of currency, fully realizing the downward impact on the colonies' sterling reserves.

Protection of imperial markets

The impact on markets, is central to all theories of imperialism. Hilferding saw different imperial objectives towards the protection of markets: 'firstly to create the largest possible economic territory, which secondly, should be protected by high tariff barriers against foreign competition and which is, thirdly, reserved for the national monopoly combines'.[43] Cain and Hopkins (1980) and Hynes (1979) similarly concluded, though from different perspectives and methodology, that with problems of over-production in Britain posed by the severe recession between 1873 and 1896, one of the driving forces behind British imperial policy in the last three decades of the nineteenth century, as symptomized by the partitions in Africa, was concern over protecting Britain's markets from her competitors.

But imperialism was not a monolithic entity when it came to colonial markets. Barratt Brown has pointed out (1970:104–06) that at the beginning of the twentieth century, British industrialists' movement for imperial protection in colonies, despite support by the Colonial Office, was defeated by the City, whose wealth and income derived from international finance based on free trade. Cain and Hopkins (1980) argued that while the international acceptability and strength of sterling and British financial capital depended upon free trade, the latter harmed British industry which was driven out of Europe to Asia, West and East Africa, 'to save markets with supposedly high growth potential from absorption by competitors'.

Hynes (1970:116–17,136–39) concluded that Britain's initial attachment to free trade, changed to protectionism towards the end of the nineteenth century, with fears that the French and Germans were threatening British or potentially British markets. Kay (1975:107) also pointed out that the allegiance of British colonialism to free trade and laissez faire was more apparent than real and that 'what it meant in practice was not free trade between colonies and the rest of the world as much as free trade between British capital in the colonies and capital in Britain'.

In most discussions of imperialism and protectionism, however, there is almost no mention of the role of currency systems. Bagchi (1982:116–17) did point out that in introducing their own legal tender, the imperial powers drove out or subordinated pre-existing currencies; the system of taxes forced peasants to engage in production for export, creating an ultimate

dependency on banks and business houses in London; the banks 'discriminated in favor of capitalists from imperialist countries, and in favor of operations involving export and import of goods'; indigenous bankers lost their business; and indigenous colonials lost control over the means of production because of failure to fulfil monetary obligations in terms of the legal tender defined by colonial law.

Bradby (1984:62) strongly argued that money originated separately and independently of exchange, trade and markets, and that their linking was not a peaceful process but 'a battle fought out between different and contradictory systems of the socialization of labor'.[44] Bradby's differentiation of money uses was not only central to the modern colonial currency systems, but the latter also implied a significant rupturing, isolation and reduction of markets rather than unification.

The historical evidence

From the earliest times, the colonial currency created by the imperial authorities was intended to limit its circulation, to prevent it from creating a regional market across imperial boundaries as international currencies and sterling tokens had been doing, and implicitly, to limit its use only on imperial or colonial goods. In the three decades to 1912, Britain deliberately demonetized the currencies of competing imperial powers. Likewise, other imperial powers like France were charging commissions on British currencies in order to discourage their circulation within their territories. Nabudere (1981:22–25,21) has pointed out that in the first decade of the twentieth century, Germany stopped the products of her East African colonies from going to British colonies, trade routes were shifted, with Germany eventually completely dominating her colonies' exports and imports. One of the measures taken by Germany in the implementation of these changes was the introduction of a German silver rupee, identical with the British Indian rupee which had previously been the standard coins. In turn, the British authorities after WWI, went to great expense to demonetize both German and Indian rupees from East Africa.

When British silver tokens had been first introduced, the authorities had expected them to be localized in the colonies and not returned to Britain. When even these tokens became internationally mobile, the authorities replaced them with distinct new colonial currencies with the explicit objective of ensuring that they could not be exported to Britain or any other territory, except at the significantly lower bullion value.

Thus, in placing the power of currency expansion solely in the hands of sterling holders, the currency board system created a cog of dependency on which the broader imperial economic forces could then build. Thus while colonial economies might have previously had their supply of currency expanded through an influx of pre-capitalist currencies like cowries, or international currencies like Spanish, Mexican, American and

other dollars, doubloons, and a whole host of currencies coming from countries other than Britain, these were all eliminated. In places like India and the Straits, the historical right of people to convert their savings in silver jewelry into currency at the mints, was also eliminated. Given that these alternative sources and inflows of currency also had associated with them their own trading and financing patterns, then replacement by currencies which could only be obtained by those who tendered sterling, also implied a drastic change in the colonial system of trade and production towards imperial suppliers of goods and services.

The currency board system which was created by the British authorities served the interests of both the City and the industrialists who wanted protection in the colonies. First, the City interests were served since the major objectives in establishing the currency board system were not only to eliminate British silver which in colonies also constituted a liability on sterling's gold reserves, but also to create gold reserves in London, at colonial expense, to contribute to sterling's liquidity. Secondly, the authorities were able to discourage colonial circulations of all currencies which could be and were used in regional payments to non-British territories.

The expenditure of colonial currency therefore became biased towards goods produced by British industrialists rather than their imperial or regional competitors. Conversely, with increments to the supply of colonial currency accruing only to those in possession of sterling, there would also have been an inbuilt bias for the long-run orientation of production in the colonial economy to towards the objectives of the possessors of sterling. While a whole host of factors such as tariffs and transportation patterns also help explain why colonial trade became focused on the metropolitan power, imperial currency policy also helped to rupture regional trade, one reason why diverse colonial governments and commercial interests had historically opposed the imperial currency policies.

Eldridge (1978:232–24) has pointed out that after 1907, when the Dominions rejected the idea of a commercial union, Britain turned to the haven of her colonies where 'foreign goods could be excluded, British industries protected, a safe market secured ... colonial raw materials and food could be admitted cheap and Great Britain's status as a world power would be ensured in the twentieth century'.

There is some evidence to indicate that some authorities opposed the breaking away of parts of the independent Empire from sterling because this was likely to 'change the trade channels'.[45] The proposal for a uniform Empire-wide currency came to nothing essentially because the dominions saw their interests being served by a reorientation or their economic links away from Britain. On the other hand, Britain not only continued her tight trading links with her colonies but even strengthened them: colonial currencies were no doubt a contributory factor. Barratt Brown (1974:46) had argued that the 'protection of home and colonial markets, colonization and

colonial rule and the terms of trade are all to be regarded as expressions of a national policy of power, in which political, military and economic power reinforce each other'. The evidence of our study supports his conclusion that while mercantilism was concealed or disguised in the nineteenth century, it had continued well into the twentieth century.

Asymmetry of the currency board

King (1957) had pointed out the essential asymmetry of the currency board between the colony and Britain. When sterling funds were remitted to Malaya via the Currency Board, there was a net addition to the money supply in the Malayan currency area, but there was no compensatory contraction in the money supply in the United Kingdom: the sterling was simply re-deposited in London as backing for the colonial currency, effectively a transfer from the agent sending the funds, to the Currency Board.

Wilson (1957) further argued that if the money supply as a whole and not just currency, and the differences in bank multipliers in the colony and metropole were taken into account, then the most that could be said was that a transfer of funds from the United Kingdom to Malaya would tend on the average to be accompanied by a less than equivalent contraction in the United Kingdom money supply.

Wilson however also pointed out significant implications for Britain of colonial dealings with third countries. Firstly, a transfer of funds from the United States to Malaya would also be accompanied by a fortuitous expansion in the United Kingdom money supply; while a transfer of funds from the colony to the United States would lead to a significant reduction of the UK money supply. Secondly, Britain's deficits with third countries would lead to a much greater contraction of British money supply than if Britain had deficits with her own colonies.[46] Finally, if sterling was tendered to obtain Malayan currency and the Malayan Currency Board invested in Malayan dollar securities, there would be a fall in the ratio of external reserves to currency liabilities in Malaya.[47]

The currency board system therefore held additional advantages for Britain due both to the implications of stocks of currency held as well as flows: capital invested in a colony did not lead to a significant contraction of the British money supply; a deficit with a colony had relatively much lower contractionary effects on the British monetary system as opposed to a deficit with a third country, while colonial surpluses with third countries had significant spinoff effects on Britain. Conversely, the system also clearly spelt out the monetary disadvantages for Britain if colonial funds were to flow to third countries either on capital or current account. It was very much to Britain's advantage to ensure that colonial foreign reserves were not invested in third country securities, nor that colonial funds were expended on third country goods. These monetary implications are quite

additional to the normally discussed industrial effects of protectionist policies followed by Britain towards British-produced goods and services. The arguments presented here may have some relevance also to similar relationships between US investors in countries which keep their external reserves in US dollars.

The historical evidence

The historical evidence indicates that when creating the currency board system, the authorities were aware that British capital invested in colonies would not be locked up in the colonies but be immediately available in London, especially in times of political emergency. They were also aware of the implications for British balance of payments if colonies held securities other than of Britain: rules were consciously created to strictly limit these. Britain thus had the ability to effectively finance a deficit with a colony by instructing it to buy British Government securities to match the increase in the colony's currency supply. This was indeed what occurred after the 1930s.

The historical evidence has shown that even when the authorities were creating the currency board system, the primary objective was to create and increase the reserves in London. The authorities themselves expected that a large proportion of these reserves would not be needed for converting colonial currency into sterling, clearly implying an unnecessary export of capital from the colonies from the very beginning.

This principle of the 'hard core' was acknowledged also when the system was being criticized in the early 1940s. The authorities (including Caine) had early on internally acknowledged that certain proportions could be made fiduciary, releasing significant amounts for colonial development. Reform, while admitted to be necessary and overdue, was rejected, with the imperial authorities consciously realizing the likely disadvantages for sterling's balance of payments, the London money market, and the borrowing costs of the British Government.

There is also evidence to suggest that there was a more general imperial policy of extracting all available savings from colonies, and not just currency funds. From the beginning of the twentieth century, Britain forced colonial governments' surplus balances and savings banks funds to London. Not only did this contribute to liquidity in London, but one expressed imperial fear was that buoyant cash balances in colonial banks would encourage credit creation and the eventual reduction of sterling reserves. This historical counterpart and liquidity policy in colonies, was the historical counterpart of Polak's (1957) theoretical conclusion that a lasting increase in the rate of credit expansion would eventually result in a comparable rate of loss in foreign reserves.[48] The authorities fully recognized that these policies also deprived the colonies of much needed development capital which had potentially greater returns in colonies, while creating monetary stringency in colonies.

Evidence also indicates that in the mid-1930s, Britain required all colonies to accumulate significant 'emergency' reserves in London. Within the Colonial Office, this policy was seen by one critical official as using the 'pitiful resources' of some colonies to build up surplus funds in London 'at the expense of practically every advance in administration of social services which might otherwise have justified British rule' (quoted in Narsey:1986). These funds were also invested largely and increasingly in British Government securities (see Table A.4e in the Appendix). The evidence indicates that this policy was articulated in 1924, as well as earlier in 1899, both periods of convertibility crisis for sterling. The imperial objectives of these earlier proposals were, through forced colonial budget surpluses, to create reserves to be used to either reduce existing debt or to maintain sinking funds in London. Both were intended to minimize colonial calls on the London money market.

These colonial sterling reserves were deliberately kept accumulating in London even after 1950 by which time, the authorities were completely aware of the need for using the excessive colonial reserves on colonial development. Between 1950 and 1956, colonial currency reserves alone increased by £182 millions to £464 millions, the sterling reserves held by colonial banks increased by £58 million to £250 millions, the reserve funds held by colonial governments and marketing boards rose by £406 millions to £740 millions, and the total sterling balances went from £808 millions to £1,454 millions.[49] Shannon (1952) had argued that as the sterling assets were more or less permanently lent to Britain, they negated the Colonial Development Acts, especially of concern given that the large assets were derived from poverty-stricken colonies. In the same period that colonial sterling balances had increased by £646 millions, non-sterling countries reduced theirs by £369 millions and more importantly, independent sterling countries reduced theirs by £517 millions. Nabudere's contention (1982:71) that the Sterling Area was a 'device to exploit the colonies' receives much backing.

Far from gaining by depositing in the metropole, the colonies suffered severe losses on these sterling reserves. First, and contrary to Abbott's (1955:5) claim that the Crown Agents were able to use their discretion to obtain 'a better effective yield' for colonies, the authorities enforced a policy of extremely liquid portfolio against the Crown Agents' judgment, earning minimal returns for the colonies, certainly much less than was possible within colonies. Second, because of the several devaluations of sterling, the colonies 'lost over one third of their reserves to the British financial oligarchy' plus what they lost because of the inflation in world prices after 1939 (Nabudere 1982:72). Some of these losses would have been prevented had colonies been allowed to follow the independent dominions in diversifying from sterling, especially from the late 1920s. Third, the colonies were not allowed to use either their dollar earnings or even their own sterling reserves for their own colonial development. Nabudere has pointed out (1982:72) that unlike

independent Commonwealth countries who were credited with their dollars and gold in the Gold and Dollar Pool, the colonies were simply credited with sterling in exchange for their dollars. We have also shown that colonies were asked to reduce their sterling demand even on British goods because the authorities wanted to satisfy British demand first (Narsey 1986).

Griffin and Gurley (1985:1109) and Alavi (1982:67) have argued that one of the mechanisms of underdevelopment in colonies was that the 'net movement of financial flows was from the third world to the advanced capitalist countries' whose capital accumulation was thereby fostered. The evidence here supports the views also of Howard (1978:129) and Nabudere (1982) that the currency board system was one mechanism deliberately used by the authorities in this transfer of capital. These flows to London need to be situated in the context of two other British imperial policies: first, the virtually complete neglect of colonial development; and second, the imperial discouragement of colonial capital borrowing in London.

Inability to stabilize domestic incomes and prices in response to external fluctuations

Mars (1948:195–99,200–02) noted that the currency board system tied Nigeria rigidly to the booms and recessions of the sterling area, effectively preventing stability of domestic incomes and prices. In an export slump when banks and companies withdrew credit and funds, liquidity was pumped out and the indigenous economic sectors felt the worst effects even though the high propensity to import did act as a stabilizer.[50]

Newlyn and Rowan (1954:204) agreed that while the stabilization of incomes required free resources, the essence of the currency board system was that the reserves were not free and not available for income stabilization. Drake (1969:59) concluded that without the use of reserves, exchange control, exchange rate manipulation, or import controls, persistent deficits in the balance of payments had to result in 'reduced liquidity, falling prices and loss of incomes' in the colonial economy.[51]

Mars also saw the currency board system as being unable to deal with an inflationary situation. Thus he feared that the aftermath of the wartime inflation would be that once import restrictions were lifted, Nigeria would import heavily, using dishoarded currency. He feared that this would result in reduced liquidity in the domestic economy and depressed domestic production, prices and incomes. Mars advised that this had to be discouraged by the depreciation of the rate of exchange, imposition of high import duties to prevent imports, and the establishment of reflationary public works programs financed by the raising of external loans, where local currency was depleted.

While the currency board system was supposed to prevent inflationary issues of currency, the barrier acted only against those who could not freely

obtain sterling. Hazlewood (1954:293) pointed out that while Currency Commissioners could never be asked to deliver more sterling than was the equivalent of the local currency, they could be asked to provide as much local currency as the amount of sterling tendered. *Round Table* (1947:251), while generally defensive of imperial policies, conceded that colonial goods and services could be obtained by the British Government 'by the mere printing of sterling securities'.

Rudner (1975:325) was critical that in Malaya, the returning British demonetized the war-time Japanese currency and massively increased the circulation to above the pre-Japanese levels. This resulted in a huge transfer of real resources into the hands of the British Military Administration, and an inflationary spiral with prices soaring to ten times the pre-war level. Most colonies saw significant inflation during and after the two world wars as colonial goods and services were paid for with sterling, essentially expanded through the issue of British Government securities, while restrictions on imports prevented the increased colonial circulation from being spent (Narsey 1986). It could be argued that effectively, British debt was partly financed through inflation in the colonies.

Despite the inflationary consequences of inadequate control over bank creation of money, the authorities were reluctant to impose severe reserve requirements on the note issues of private banks, while enforcing them on colonial governments, whose revenues safely bore the ultimate liability, unlike the private banks.

Inability to vary exchange rates for domestic economic policy

Mars (1948:202,203) had argued that the fixed exchange rate of the currency board system, combined with comparatively low tariffs, resulted in unemployment and underemployment, in the colonial home industries which competed with imports. It was not always in the interests of Nigeria for its exchange rate to automatically follow sterling. Rare depreciations or appreciations of West African currency to counteract a fundamental disequilibrium of the balance of payments ought to have been used as a stabilization technique. Mars (1948:207) pointed out that while there were some arguments for retaining parity with sterling, there were also good arguments for devaluing the Nigerian pound. Moreover, changes in the value of sterling might adversely affect Nigeria's trade with the rest of the world; part of the currency reserves could be liberated to be spent on reflationary works with low import intensity; and exports might be stimulated.

The historical evidence

These arguments had general colonial relevance. However, instead of devaluation, the colonial currencies were at times revalued. Thus post-war

Malaya, despite the massive war-time inflation, had the exchange rate restored to pre-war levels, with a severe deflation of Malayan incomes (Rudner 1975: 325).

While this study has not focused on imperial policies on colonial exchange rates, the available evidence suggests at the time the currency boards were being created, the authorities tended towards setting a relatively higher sterling value for the colonial currencies, as in the Straits and India. The advantages seen by the imperial authorities were the encouragement of imports from Britain and the easier collection of colonial revenues intended for payments of sterling debts.

There is also substantial evidence that most colonial economic interests displayed a preference for a lower exchange rate which would have boosted colonial exports and reduced imports. After independence, once the constraints had been removed from domestic demand and increased money supply, most former colonies soon found themselves in balance of payments difficulties, requiring significant currency devaluation.

Opposition to central banks and central bank policies

It was patently clear that the inability to engage in exchange rate variation and manage the domestic money supply and financial institutions in order to stabilize domestic incomes and prices in the face of external instability was largely attributable to the absence of central banks in colonies.

Drake and others have pointed out that the currency board system prevented the exercise of independent monetary policy for encouraging economic development, but instead automatically reflected the policies pursued in the United Kingdom.[52] The currency boards' failure to regulate the banking system, develop credit institutions, capital markets and other institutions more conducive to economic development, were attributed by Newlyn and Rowan (1954:205) to 'narrowly subscribed responsibilities', the currency boards' lack of interest in these problems and, in the case of the East and West African Boards, their 'overseas residence and their expatriate composition'. Drake (1969:68) had argued that there was no scope in Malaya for the traditional instruments of central banking: the commercial banks did not hold local Treasury Bills and the market for government securities was virtually non-existent, hence colonial banks did not make short-term loans to colonial governments.

Caine had alleged that for several years the Colonial Office had been prepared to allow the holding of local government securities instead of only sterling securities, while Greaves (1953a:15) argued that the currency authorities invested 'freely in the securities of the Colonial Governments'. The evidence in this study has indicated that these views were deliberately misleading as both were aware that for decades, London had prevented colonies from backing up their currency with colonial government securities.

Wilson (1957:61–63) thought that even under the currency board, authorities could have manipulated the money supply in a situation where Banks could offset Government actions. One powerful theoretical weapon available to the authorities in times of inflationary pressures that King (1957:78) also supported, was the ability of Government to withdraw funds from the public by means of a budget surplus and deposit them in London, or its ability to switch its reserve funds between Singapore and London. Sterling funds would thus be transferred from the banks to the Government, the banks would have to call in their loans from their private customers, and the local money supply would be contracted to an amount exceeding the budget surplus or reserve transfer. Drake (1969:58) had further argued that because this operation was almost the equivalent of an open market operation, it was of potentially great significance in countries where there did not exist a well-developed securities market. An added advantage was that it could be used in a discriminatory way to vary the cash reserves of individual banks. These superficially plausible arguments ignored that the eventual economic result would necessarily be a severe reduction in government expenditure, which had already been constricted for decades, leading to severe constraints on infrastructure, education and health, thereby also constraining development.

Critics, while acknowledging that monetary reform was not a panacea for economic backwardness, thought some changes could be advantageous. The automatic connection between the issue of local currency and its sterling reserve could be broken; the excess reserves either utilized or used as the basis for fiduciary issues; local issues of colonial government securities could be encouraged; and there could be provision for a measure of monetary management to limit and control the amplified internal effects of the swings in the balance of payments. The natural focus of such monetary management had to be some monetary institution like a central bank (Drake 1969: 36). Mars (1948:212) had pointed out that colonies could easily emulate many poor European states which operated central banks without a well-developed internal market for gilt-edged securities and implemented useful policies.[53]

Balogh (1959:23) also reminded that the imperial authorities could have reorganized the Sterling Area as a co-operative economic Commonwealth with colonial Central Banks emulating that of Australia which had successfully tackled problems similar to those found in Malaya. Balogh complained that, instead, the authorities and some authors were still vehemently opposing reform in the 1950s.[54]

The historical evidence

The historical evidence is clear that quite contrary to Sayers' claim that the authorities and the Bank of England had been in the vanguard of setting up central banks in colonies after war, the reality was that they sent out dubious 'experts' to prove to colonies that central banks would be premature and

rash; and that if central banks were established, then they had to resemble currency boards as much as possible, and be as restricted in their investment policy or supervisory powers over private banks operating in their territories as previously. Caine (1958) alleged the Malaya Government was acting very wisely in the interests of the Malayan people in their decision to create a Central Bank with only modest powers and functions.

Balogh quite accurately asserted that these experts' reports, such as the Watson-Caine Report on the establishment of a Central Bank in Malaya,[55] were not only inadequate as economic or financial analyses, but were political documents whose 'basic assumption was the preservation, or rather restoration, of London's position as a financial center'.[56] Their aim was to discourage the colonies from using their accumulated sterling reserves for their own economic development, because Britain would have been unable to meet the drain on its reserves.

The historical evidence indicates that the authorities had acknowledged a decade before the 1950s academic debate that colonial securities could and should be issued but were opposed to it. More than two decades prior to that, colonial issues had been requested by colonial governments and private capitals in colonies but the requests were consistently turned down in the imperial interest. Where by some historical accident there did exist local colonial securities with unsatisfied colonial demand, the authorities attempted to either replace them with sterling securities or reduce their importance in the currency fund portfolios. There was no attempt by the authorities to foster colonial money markets, which were starved of liquidity. Behind these imperial policies was the conscious imperial acknowledgement of the conflict of interest between the British Government and London money market on the one hand, and those of the colonies.

Similarly, while the authorities acknowledged from at least the early 1940s, that colonies did require new financial institutions and instruments more conducive to colonial development, they took no action because of the opposition from the Bank of England and the Treasury. This was not just a twentieth century phenomenon associated with currency boards. Keynes (1913a) had pointed out that efforts in the mid-nineteenth century by British investors in India to establish a central bank were smothered in the 'magnificent and empty maxims of political wisdom'. What was important then, as in the mid-twentieth century, was that the authorities in London were opposed to the rise of any colonial institution which might challenge their discretion in manipulating colonial reserves. At issue were the cheap financing of the British Government, sterling's balance of payments, and liquidity in the London money market. The historical evidence supports Balogh's explanation of imperial opposition towards colonial central banks and monetary reform.

Reform was slow in coming, too little and too late, usually when colonies were near independence, as in East Africa. Drake (1969:36) observed that

even as late as 1969, the Malayan currency system was still unchanged from the currency board in its key aspects: the Malayan currency remained overwhelmingly sterling backed and that 'while the economic potential of government's control over the money supply in the territories has been recognized in principle, in practice real monetary power has not been granted'.

Discouragement of colonial loans from London

Some currency board defenders argued that the colonial sterling reserves were not a burden since the colonies could equally borrow in London for development. Thus Caine (1958) stated that at least until the days of capital issue control in London, 'there was no limit to the size of the reservoir of funds in London', while the 'largely unconscious self-denial of not using for immediate capital investment the [currency reserve] resources ... may have increased rather than diminished the Government's ability to finance new capital expenditure'.[57] On the other hand, Caine claimed, if development was 'limited by the lack of resources in real, rather than monetary terms, credit expansion would usually generate little other than a series of inflationary increases in money incomes and prices'.[58]

Caine repeated his arguments in the Malayan context towards the end of the 1950s, when he claimed that the argument of idle currency reserves would be difficult to sustain in pre-war Malaya when the Malayan Governments did not use their overseas borrowing capacity to the full. He argued that 'if they had desired to undertake increased capital expenditure at the expense of their liquidity position they could just as easily have done it by raising a public loan as by using part of the currency fund'.[59] King (1955:720) also claimed that 'in British East Asia, at least, no government project has as yet suffered from inability to use currency-fund sterling assets'.

Rudner (1975) however has pointed out that colonies like Malaya were not allowed access to the dollars they earned; loans in London were blocked by the Capital Issues Committee; and Malaya was asked to defer imports of goods which might be exported to 'hard currency' areas. Thus while 'idle Malayan sterling reserves accumulated to excess in London, Malaya itself was starved of capital for reconstruction and development'. Balogh (1959) pointed out that 'even the scant savings which arose in the colonies were used to finance the Metropolis and the cost of domestic loans for industrial development soared towards the usury rate of the sukh and bazaar'.

This study has also shown that all colonies faced severe restrictions on access to the London money market, not only in the post-World War II era, but well before it and before World War I. These restrictions had probably existed throughout the colonial period. This was fully known by the authorities in London, who continuously squashed attempts by colonial governments, such as Hong Kong and Fiji, to borrow from London, or even

from their own reserve funds. The evidence indicates that the authorities followed a completely asymmetrical policy of ensuring that all available colonial savings were deposited in the London money market, while all withdrawals, however small, were strictly discouraged.

Constantine (1984) has pointed out that the British Treasury had consistently resisted any colonial raising of loans in London, largely because they felt that colonies were competing with the British Government's own borrowing, whose cost might thereby be also raised. He concluded that the Treasury's 'main purpose was to safeguard the financial interests of the Imperial Exchequer' (1984:15).

The significant point, however, is that similar restrictions were not as rigidly applied to the white settler dominions, which were seen by the authorities as desirable areas of long-term investment for British capital and therefore legitimate borrowers in the London money market. (Andrew Dilley: *Finance Politics and Imperialism*. Palgrave).

The imperial discouragement of colonial loans seems to have existed at least from the beginning of the twentieth century even where the superficial implication might have been that the authorities wished to encourage the issues of colonial securities. Kubicek observed that under the Colonial Stocks Act, for colonial stock to be admitted to the status of 'trustee stock', the trustees were forbidden to invest in stocks yielding over 1% more than British Government Consols. He concluded that the Act, 'rather than serving to encourage investment in colonial government stock, merely recognized what had come to pass that British investors had a marked preference for such securities ... [which were] more attractive investments than Consols which yielded less' (1980:89). Right from the turn of the century, colonies were being forced into holding these British Consols, which ordinary private British investors eschewed in favor of the more profitable colonial and dominion securities.

Colonies were not allowed to become significant borrowers from the London money market. Emmanuel (1972) reinforces Barratt Brown's observation (1970:xiv) that up to 1914, colonies excluding India and Ceylon, had only £100 million of British investment by public issues, while the white dominions and the United States had obtained £2,056 millions. Constantine (1984:296–97) documented that the total of all loans raised by all the colonies between 1919 and 1939 was a mere £145 millions, there was none between 1939 and 1948, while the total at the end of 1954 was only £200 millions. This might be contrasted with the more than £1,200 millions of colonial sterling reserves held in 1952 by the colonies, excluding the similar holdings of India and Egypt.[60]

The historical evidence

The evidence indicates that colonies were denied access even to their own funds in London, even in the nineteenth century.[61] Although a special class

of 'inter-Colonial' loans had been implemented by the Crown Agents from 1925, to save expenses of issue and management, there had been a mere £3 millions of such loans by 1954. Abbott observed that the difficulties of lending colonial funds to the colonies was that Treasury approval was always needed to ensure that the money could not be raised locally or found from other sources, approval was given 'only in exceptional circumstances' and even then, the final decision was subject to approval by the Bank of England.[62] It has also been shown that while one of the supposed objectives of the JCF had been to allow colonies to borrow from it, the 1931 Rule created by the imperial authorities had specifically banned this, while insisting on the purchase of lower yielding and depreciating British Government securities. The rules also strictly limited colonies from holding each other's securities or that of the dominions.

Given that British capital had freely been invested in the white settler dominions and that dominions drew down their sterling balances while colonies were forced to increase theirs, it is clear that Britain's currency and monetary relationship with her colonies proper implied an extraction of capital from the latter to London, to facilitate British investment overseas.

Minimization of imperial expenditure on colonies

Many studies have pointed out the relative paucity of development expenditure in colonies. Constantine (1984:267, 275) found that between 1875 and 1915, Britain spent a total of £1.4 millions and only £35 millions between 1918 and 1939. Between 1929 and 1940, while the Colonial Development Fund was supposed to spend an annual average of £1 millions, the actual average allocation was restricted to £640,000 per year by the authorities. After World War II (WWII), even though £140 millions had been allocated for colonial development expenditure between 1946 and 1956, less than £50 millions had been spent by 1951.[63]

These restrictions on expenditure were clearly the result of official policy. Kubicek has noted that, at the turn of the century, both the Colonial Office and the Crown Agents were discouraged by the Treasury from formulating long term development commitments in the colonies.[64]

Rare proposals from the Colonial Office to foster industrialization in African colonies were over-ruled by superiors.[65] 'Sir Henry Moore (Assistant Under-Secretary of State for Colonies) pointed to the 'unwritten rule' that colonial interests ranked third after those of the Dominions and United Kingdom'. The paradox was that Britain ought to have felt greater responsibility for development of the colonies which she not only totally controlled but also had formal responsibility for, in contrast to the self-governing Dominions.

The same imperial ranking was evident towards the flow of capital to the British Empire. Constantine (1984) outlines how, prior to WWII,

development of the colonies was seriously hampered by the severe restriction of finance. Between 1875 and 1915, the imperial Government had grudgingly agreed to spend a mere £4.4 million on colonial development. Between 1918 and 1930, parliamentary grants and loans totaled a mere £13 million out of some £100 million spent by the Dominions Office, India Office and the Colonial Office. The most drastic change came with WWII, when the Colonial Development and Welfare Act made £50 million available over a ten year period, increased to £120 millions by 1945 and to £140 millions by 1950.

For Constantine, one factor explaining the lack of colonial development was the strong opposition of the Treasury to finance for the colonies. Prior to 1914, imperial government expenditure in the colonies was justified only as a gap-filler between actual expenditure and revenues in the colony, or if the expenditure would directly make the colony financially independent. The Treasury consistently opposed colonial expenditure and in the 1920s pressured for reductions. Constantine's quote of the Deputy Controller of Finance in 1919 is illustrative 'I am afraid that any attempt during the next few years to find any appreciable amounts of capital for empire development will lead to grave disaster'.

Another factor was the attitude of the Colonial Office officials in charge of administering the colonies who supposedly 'aimed to maintain or achieve the financial independence of each colony. It followed that they preferred to see Colonial Development financed out of a colony' s annual revenues'. This logic was not followed for dominions. Constantine also thought that there was a lack of interest in colonial economic problems, which Colonial Office officials were allegedly ill suited to tackle, given their education and their priorities. The Colonial Office itself was divided into geographical compartments, with little expertise, or information for that matter, on specific colonial economic problems. Colonies themselves with their own limitations, were asked to come up with suggestions which were all too readily demolished by the 'experts' in the Colonial Office.[66]

The error must not be made in thinking that the colonial sterling reserves we have been considering were unimportant either for Britain or the colonies. The aggregate colonial sterling reserves, of which currency funds were a significant proportion, amounted to fully a third of sterling's external liabilities immediately after WWII. Second, the colonial balances in London were large relative to the total amounts allocated by Britain for development expenditure in the colonies for the seven decades to 1950. Third, and more important for the development of individual colonies themselves, their individual sterling reserves were significant relative to the small amounts being invested in their economies for crucial elements of development expenditure such as education and health.

For instance, when Fiji had some million pounds invested in London in the early 1930s, the authorities spent less than £50,000 on education and

little of that went on the education of non-white children. In 1937, Northern Rhodesia spent a mere £33,000 on the education of African students, five sixths of whom were still not in school, while massive reserves more than twenty times that were built up in London.[67] Similarly, the building up of excessive sterling reserves retarded development in most other colonies such as Uganda, Kenya, and remote Pacific colonies like Solomon Islands.

Gearing colonial development for British interests

The watershed for many imperial policy changes was the recession of the 1920s and the politically sensitive issue of unemployment, giving rise to the views of the visionaries Milner (Secretary of State for the Colonies, 1919–21) and Amery (Under-secretary of State in the same period and Secretary of State 1924–29). Previously, the Treasury argument of not interfering with the private sector's allocation of capital and labor, and the argument for not increasing public expenditure because it would hamper British industry and its competitiveness in the world market, had held sway. Now, in the political crisis of unemployment, the Colonial Office was able to obtain support from other ministries such as the Board of Trade for an export-led growth for Britain by using 'development expenditure' in the colonies.

This was simply the Milner and Amery argument placed in a more urgent context: 'the development of colonial markets and resources would be of great economic benefit for Great Britain. Even before the first world war they had argued that the economic security of Britain could be safeguarded only by developing empire its markets and resources, by abandoning free trade, and by moving towards empire economic unity'. Previously, when the idea had been mooted few practical results had eventuated (Constantine, 1984).

Constantine gives the example of the Colonial Development Committee which had been established by Milner, had met nine times in 1919–20, and then eventually been abandoned with little impact. It was thus the political crisis arising from the huge unemployment of the 1920s that led to the few changes that took place 'The Imperial Government's decision in 1929 to create a Colonial Underdevelopment Fund supplied with £1 million per annum, for the purpose of aiding and developing agriculture and industry in (any) colony or territory and thereby promoting commerce with or industry in United Kingdom, is to be understood only against these background arguments'. It was thus the investigation into the workings of the Colonial Office in 1927–29 that a separate economics section was established in 1932, and only in 1945 that a range of subject departments set up specializing in finance, development, commercial relations and production.

It might be very well argued, that it was simply the last objective (the production, of vital raw materials for the British economy) that was the focus of these changes (for example, for purposes of bulk-buying) rather than inherent needs of the colonies. Contrasting attitudes of Britain towards the

financing of Empire development may be seen in the attitudes and performance in the settlement schemes for Australia (next chapter).

In the 1930s, with unrest emerging in many colonies, such as riots in Jamaica, there was increased pressure on Britain to develop her colonies. However, attempts by both British and non-British enterprises to set up manufacturing industries in colonies, met opposition from British authorities. Meredith (1975) pointed out with Britain looking to the colonial empire for her myriad economic problems arising from her lack of competitiveness in the world, 'it was possible in the colonial empire for the British Government to compel a colony to impose fiscal measures favoring British trade (for example, quotas on textile goods in 1834), [and] to prevent a colony from taking measures to protect infant manufacturing industries ... no such measures could be imposed on India or the Dominions in this period.'

Of the pre-WWII expenditure, Constantine concluded that what little was spent was geared towards 'alleviating distress in Britain' and significantly, actual proposals for colonial expenditure came from the British Board of Trade and British government committees on unemployment. Even the post-WWII emphasis on colonial development and welfare was within the context of a hostile international environment and as 'a way of increasing valuable supplies of food and raw materials from within the sterling area'. Constantine concluded post-WWII expenditure was 'essentially a defensive operation, to provide a new justification which would legitimize the perpetuation of colonial rule'.[68]

Britain as direct beneficiary

Niculescu (1954:618) had correctly interpreted the sterling balances as indirect loans to the British Government, comparable to Britain's note issue at home, except that the similarity was obscured by the intermediary role of the Crown Agents, and that interest was paid on the backing securities.

King quite wrongly thought that the investment of colonial funds in securities of the United Kingdom was not a necessary consequence of the monetary systems, but actually the manifestation of a balanced investment portfolio and the 'working rule of the Crown Agents, who act[ed] for colonial governments and on their instructions', that at least 70% of colonial government sterling assets, should be invested in the securities of the United Kingdom Government.[69] He had claimed that the British Government thus neither issued colonial currency nor used the surrendered sterling, unless and until the Crown Agents acting for the colonial currency fund, actually bought British Government securities.

Greaves (1954:20) also argued that the large sterling balances were 'not a wartime improvisation to meet the United Kingdom's balance of payments difficulties ... but had existed from the time when England was on the gold standard and sterling was the world's international currency'. She claimed

that the basis for the sterling balances was the administrative connection with Britain, with colonial Government Funds being temporary surpluses, working balances, unspent development funds and funds earning the best yields possible on short term investments.[70] Newlyn and Rowan (1954:203) thought that colonial sterling accumulation resulted because the colonial governments themselves desired 'to hold more sterling assets than those required by the currency regulations, not less'. One extreme view was that the sterling balances ought not to be considered absolute British liabilities at all.[71]

These views have persisted in the literature, long after the initial debate was over. Nelson (1987:48,71) and Maxon (1989:342) have argued that critics of imperial currency policy and their 'London-centered approach proceeded mainly in ignorance of the possibly decisive role which conditions in the dependencies themselves may have exerted on policy' and they doubted whether 'London interests either planned or manipulated' colonial currency policy in their own interest.

The historical evidence

The historical evidence has, however, shown that investment in British Government securities was not the result of the Crown Agents' wish to have a balanced portfolio but was forced by the London authorities against the wishes of both colonial governments and the Crown Agents, whose legal powers were deliberately and deviously circumvented. These policies had been deliberately enforced by London from the beginning of the century, even when the currency board was being created, clearly negating the views of Nelson (1987) and Maxon (1989). Following the Great Depression, and during and after WWII, the authorities again had to over-rule the Crown Agents and the Colonial Office. The proportions of colonial funds invested in British Government Treasury Bills and securities, eventually rose to more than 98% after 1945. The authorities' primary objective was the provision of cheap ready finance to the British Government, although in the 1940s, the easier management of British balance of payments difficulties also became important. As Nabudere (1982:74) argued, Britain used the colonies as 'the first resort lenders, with the right to manipulate their earnings with impunity'.

The historical evidence fully negates Warren's methodological criticism that there was no conscious and deliberate decision by the imperial state actively causing underdevelopment of colonies. The imperial authorities proceeded with their policies with the full acknowledgement that their decisions were not based on sound currency policy, that they were not in the interest of the colonies who were deliberately kept in the dark about imperial policy decisions, and that the objective was to assist the financing of the British Government and the stabilization of the London Money market in the City's interests. The authorities, while also aware of the defects in the

currency board system (the holding of excessive reserves, the lack of fiduciary issues and colonial securities market, the absence of developmental financial institutions), consciously opposed reforms which would have led to fiduciary issues in colonies or the establishment of central banks, explicitly in order to prevent the run-down of these balances which the colonies wanted for colonial development but were to Britain's advantage not to be reduced.

It should be no surprise that there were British colonial civil servants in London who consciously served the imperial interest, even if this sacrificed colonial welfare: such as Sir Sidney Caine and Sir Basil Blackett, both of whom subsequently rose in the imperial hierarchy.[72] However, there also were many functionaries in colonial governments, the Crown Agents, and the Colonial Office, who fought for colonial interests whenever these were threatened by imperial decisions. Rather than being unquestioning tools of imperialism, the imperial bureaucracies were themselves sites of the conflict of interest between the metropole and the colonies. Nevertheless, the evidence in this study suggests that most such conflicts were ultimately decided in the imperial interest, with the decisions being handed down through the Treasury, usually at the instigation of the Bank of England, which had its own connections and priorities in the London Money market and the City investors. Some indication of these priorities is outlined in the next section.

The locus of imperial decision-making

This study's reading of the historical archives and the correspondence between colonial governments, the Colonial Office, the Crown Agents and the Treasury, indicate clearly that most imperial decisions on colonial currency matters came from the Treasury, which in turn nearly always listened to the Bank of England who also represented City interests.

Aaronovitch and Smith (1981:61,72) identified UK capital operating overseas as playing important roles in imperial currency policies: 'the maintenance of conditions in which exported capital was safe, sterling defended, and international commercial and financial operations could freely function became the first priority in state policy', often against the interests of British domestic industry.

However, their interests at times coincided. Thus early mercantilist policies discouraging the colonies from using internationally acceptable currencies (both sterling and non-sterling) would have been in the interest of both the British economy as well as international financial capital. The imperial policy of discouraging colonies from adopting gold standards and circulations of gold currencies would have strengthened Britain's gold reserves, sterling's convertibility, and the interests of financial capital.

On the other hand, the enforcement of silver on colonies also had beneficiaries in the London bullion markets profiting from the international

movement and sales of silver in return for gold or sterling. They were also frequently in a position to directly and indirectly influence colonial currency policy, as with the London Committee which advised the Secretary of State for India, or with imperial representation to the nineteenth century international monetary conferences, or the numerous 'committees of inquiry' set up for India and the colonies.

The establishment of the currency board system then had obvious beneficiaries in the London money market whose liquidity was bolstered to the advantage of sterling's convertibility, especially valuable in times of reserves crises, as explicitly acknowledge by the Blackett Memorandum.

Also clearly benefiting was the British Government, whose securities found a captive colonial market at interest rates which free private British capital rejected. Despite the need for reform of the currency board system, admitted the Colonial Office, reform was adamantly opposed by the Treasury and the Bank of England. While it could be argued that they were acting in the domestic interest of both the British Government's need for cheap finance and the British economy's need for a stable sterling, it was also in the interests of London's financial capital who were spared the 'national duty' of holding economically undesirable Government securities and could thus continue to invest abroad, despite sterling's frequent crises.

Much of the post-war efforts by the Bank of England and Treasury to maintain liquidity in the London money market could also be attributed to the fragility of British reserves, given Britain's commitment to fixed exchange rates under Bretton Woods (Larry Neal, 2004).

It was also in the interests of British producers of goods and services to which colonials were locked because the colonial currency was only convertible through the London money market. To the extent that both the establishment and continuation of the currency board system, and the imperial opposition to monetary reform retarded colonial development, it could be argued that these imperialist currency policies also contributed to colonial underdevelopment.

It may be argued that similar but modified forces continued into the immediate post-colonial periods. Many newly independent economies continue to severely constrain ordinary citizens from freely using the national currency as a universal equivalent in the world economy, despite its alleged convertibility. While expatriate and large local capitals freely convert their local currency into foreign exchange, either on a de jure or de facto basis, only the ordinary citizens face restrictions. They are thus unable to earn the highest potential global rates of return from their savings, or freely purchase commodities on the world market, or make capital transfers. Effectively, they are locked into supplying capital to the local borrowers, or purchasing from the protected sellers in the local market.

The academic analysis of 'neo-colonial' monetary relationships in the post-colonial period may well benefit from this study.

Historical post-script: the new currency boards of the 1980s and 1990s

This section presents a brief analysis of the recent literature that argues that the adoption of the currency board monetary system (CBMS) by some central European countries and by Singapore and Hong Kong is a vindication of the British imperial currency boards and establishes their superiority to central banks for developing countries.[73] The following may be read: Hanke and Schuler (1991), Walters (1992), Schwartz (1993), Bennett (1994), Williamson (1995), Atish R. Ghosh et al. (1998 and 2000), Hanke (2002) and Ow (1985, 2014).

The movement has been led by Professor Steve Hanke of the John Hopkins University and occasionally by Professor Alan Walters.[74] The modern currency board was also at times advocated by the International Monetary Fund.[75] Hanke attributed the demise of the currency boards after WWII to influential economists 'singing the praises' of central banks' flexibility and fine-tuning capacities, a desire to shake off ties with former imperial powers, and even to institutions such as the IMF 'anxious to obtain new clients and "jobs for the boys"'.

Hanke (2002) presented data for a number of developing countries in arguing that currency boards were 'unambiguously superior to central banks' by criteria such as GDP growth rates, control of inflation and control of fiscal deficits. The countries adopting the CBMS include Argentina, Indonesia, Bulgaria and Yugoslavia, as well as former colonies such as Singapore and Hong Kong.

Hanke outlines the central bank characteristics which had the potential for misuse: central banks held domestic assets, had discretionary monetary policies, regulated commercial banks, were lenders of last resort, and could finance spending by domestic government. Of course, others can see the same characteristics in responsible hands as powerful instruments for fostering development. Hanke also identifies central bank weaknesses such as frequent conflict between exchange rate and monetary policies, frequent balance of payments crises, potential for insolvency, limited convertibility, prone to corruption scandals, politicized, low credibility, tendency to create inflation, lack of transparency. Hanke argues that in developing countries the rule of law is weak and the principal/agent problem means that voters (principal) have very little control over their agents (politicians).

The counterarguments

The fact that many developing countries have failed to grow as well as they could, may partly be attributed to some of the 'weaknesses' listed by Hanke but cannot be laid solely at the doors of central banks. Most central banks, as in Nigeria would acknowledge the potential for political misuse of their powers (Uche 1997). But the appropriate long term solutions surely lie in the

reform of the institutions of political and economic governance, and not in 'throwing out the baby with the bath-water' with the rejection of the central banks and adoption of the rigid currency board, as advocated by Hanke.

Hanke himself notes that the developing countries that adopted the currency board in the 1990s did so because of their political or economic instability, and the currency boards were intended to impose fiscal discipline (including the wage restraints loved by IMF) and discourage inflation and the inflation tax. Some countries in central Europe, such as Bosnia, Herzegovina, and Estonia, adopted currency boards to instill a stable institutional framework and international confidence after breaking away from Russia. Walters (1987:113) similarly identifies the advantage that the currency board 'depoliticized the monetary system and insulated the public purse from plundering politicians. There was no resort to the printing press to reward political allies or ruin one's opponents'.

This book has shown that similar arguments had been made for two centuries by the British imperial authorities, which prevented or discouraged the issue of fiduciary issues in colonies. These arguments then, and currently, ignored the largely responsible credit creation policies of many colonial and independent governments to finance public expenditure, whether on infrastructure or health and education, necessary for sustained economic growth, often based on large British and other metropolitan investments.

As this history of the British colonies has shown, currency boards per se do not lead to vibrant economic growth; while they can and have stifled indigenous enterprise, directly or indirectly. More recently, Huff (2003),[76] while acknowledging the currency board advantages outlines how the local Chinese banks, despite serving the economy, remained small because of the stifling impact of the two oligarchic banks, Hong Kong and Shanghai Banking Corporation and the Chartered Bank of India, Australia and China. These two focused on safe banking with European clients, and repatriated their profits back to their shareholders in the metropoles. The Chinese banks, with no central bank lender of last resort in the occasional crises, suffered intensely. Austin and Uche (2007) drew similar conclusions for West Africa that despite the high sterling reserves maintained by the currency boards, because of the cartel behavior by the two London banks, Barclays and Bank of British West Africa, there was sub-optimal lending and deposit creation to serve the needs of the domestic economy in the hands of the Africans.

The historical reality is that governments of most developing countries adopted central banks for the same reasons that long-run successful western capitalist economies have. Unfortunately, Hanke did not include in his research sample countries such as Britain, the United States, Germany, France, Japan, or Canada. The even better comparators would have been the white settler dominions whose economic conditions a hundred years ago were quite similar to those of the dependent colonies, as is done by Olivier Accominotti et al. (2009) outlined in the next chapter.

The historical reality of normal capitalist development is that of occasional low GDP growth rates, high inflation at times, even fiscal irresponsibility by some governments – with lack of transparency and the 'principal agent' problem that Hanke emphasizes. Many countries have suffered at times the central bank weaknesses that Hanke decries, and even worse – such as the Global Financial Crisis, but none have adopted the currency board system as a consequence.

A misrepresentation of Ow (1985)?

The 2014 republication of the Chee-huay Ow 1985 thesis on the successful operation of currency boards by Singapore and Hong Kong, might have been intended to reenergize the international lobby for modern currency boards, but instead presents some puzzling anomalies. Early in the publication is stated (p.51) 'in view of Singapore's and Hong Kong's economic experience vis-a-vis those of the countries who left the CBMS it is difficult to avoid the conclusion that the CBMS has played a considerable role in the two city state's [*sic*] economic achievements'. But the conclusion states (p.182) 'Thus, based on our model, Singapore's and Hong Kong's rapid income growth in the 1960s and 1970s could not be attributed to their adherence to the CBMS per se…but it was due to capital accumulation and increases in capacity income arising from capital accumulation and labor force expansion…. During this period the two city states were industrializing rapidly'.

Ow had further concluded (p. 183) 'Since the monetary stability inherent in the system is derived from capital mobility, as in the case of other small open economies on fixed exchange rates, Singapore's and Hong Kong's monetary stability in the 1960s and 1970s, too, could not be entirely credited to their adherence to the CBMS'.

Moreover, Ow's model predicted (p.190) 'that a return to the CBMS alone will not enable the former CB colonies to achieve the rapid economic growth enjoyed by Singapore and Hong Kong…a high rate of investment is essential. For this institutions that promote domestic savings…increasing productivity and growth have to be implemented, instead of monetary and fiscal policies'.

As Professor Larry Neal succinctly noted in his Preface to this book 'The later successes of currency boards in Hong Kong and Singapore after de-colonization are due to their freedom from imperial control, not the inherent virtues of fully backed currencies'. To which we may add, there are grave dangers in using the somewhat unique experiences of Hong Kong and Singapore, with their dynamic entrepreneurial classes and business cultures, and proximity to the massive Asian market, to generalize the same possibilities to other developing countries around the world. Historians do not generalize the global British imperial experience to geographically larger European countries, such as France, Germany, Spain or Portugal, even if some similarities did exist in their relationships with their colonies.

9

Currency and Monetary Policies in White Settler Colonies and Dominions: Superior Alternatives to Colonies

Introduction

Discussions of colonial currency policies seldom include the experiences of much earlier white settler colonies in North America, Australia, New Zealand, and South Africa[1], even though they had quite similar currency problems invariably generating similar conflicts with the imperial decision-makers. Indeed, discussions of colonialism rarely look at England's early colonization of Scotland, Wales and Ireland, with the rare exception of Philippa Levine (2007). Yet the contrasting imperial reactions to the currency policies in these white settler colonies, later to be granted self-government status and eventually called 'Dominions'[2] which became 'developed' economies, highlights the negative consequences of imperial policies in colonies proper, which were adamantly refused self-government and treated quite differently in currency and monetary matters, as well as broader economic policies.[3] The central issue is why the white settler colonies were given the leeway that the colonies proper were not. The differential treatment of white settlers in 'mixed' white settler colonies, such as South Africa and Rhodesia, where non-whites were in the majority and given inferior treatment by the state, illustrates also the factor of racism underlying monetary imperialism, a factor considered important also by Accominotti et al (2005) below.

Quite early on, the American colonies' 1783 military success in becoming independent of British control taught Britain the lesson that 'failure to accommodate the aspirations of colonists would lead to a repeat of the American Revolution, so Britain's dealings with its white settlers were designed to regain their loyalty and an imperial association'. Johnson (2003: 59–60) points out that the colonies of white settlement enjoyed a special status, considered part of 'greater Britain', with the British settlers being the

agents of British civilization, tastes and values. In this regard, these white settler colonies needed to prosper, and also enjoy the liberal and democratic traditions enjoyed by Britain, although Accominotti et al. (2005) argue (see below) that the former democratized far more than Britain and much earlier. Between 1853 and 1920, Britain exported almost 10 million settlers, mostly to the USA (4.3 m), Canada (2.4 m), Australia (1.7 m), South Africa (0.7 m) and Others (0.7 m).[4]

Fieldhouse (1961–63:85) saw an undeniable legal difference between 'colonial' status and 'Dominion' status: 'In a colony, however autonomous in certain respects, the authority of the imperial parliament is real and over-riding, and is defined in the Colonial Laws Validity Act; whereas in a Dominion, after its adoption of the Statute of Westminster, that authority is virtually eliminated'. Eldridge observed on the other hand that (1978:16), 'In the Crown colonies there was not even a facade of democracy. Since most of the new colonies had been obtained by conquest and usually contained a mixture of peoples, there was no question of granting representative institutions instead the Governor rules under strict instructions from Whitehall'. Usually, this was without recourse to the British parliament or local people.

Different white settler colonies, at somewhat different times, went through transition stages called 'representative government' and 'fully responsible government' before achieving the appellation 'Dominion'. The eastern Canadian colonies were the first to be referred to as the Dominion of Canada in 1867; Australia in 1901; New Zealand and Newfoundland in 1907; the Union of South Africa in 1910 and after the ending of the Anglo-Irish war, the Irish Free State in 1922. The Dominion status was formally defined in the Balfour Declaration of 1926, which recognized these countries as 'autonomous Communities within the British Empire' and equal with the UK. The 1931 Statute of Westminster then made this equality a legal reality. Underlining the racial basis of the terminology, the dominion label was quietly discarded when non-white former colonies like Pakistan and India became independent and technically also became 'Dominions'.

Whatever the basis of the labels, there were profound differences between the white settler colonies and colonies proper, not just in currency and monetary matters, the focus of this book, but also in the amount and nature of British investment that took place in these two sets of colonies, the quantity of loans they were allowed to raise in London, and the quantities of state expenditure engaged in independently in the dominions, and under imperial control in the colonies proper. These indeed were among the very factors that Chee-huay Ow (2014:182) had identified as the fundamental origins of the modern economic success of Singapore and Hong Kong, not the currency board system per se which they happened to have adopted. The historical reality has been that dominions could expect and did receive considerable investment from Britain, raise large loans from London, engage in considerable public expenditure on infrastructure, and develop financial

institutions like private commercial banks and central banks to facilitate economic growth. The natural outcome in dominions was the steady accumulation of private and public capital and rising productivity and incomes. By contrast, the colonies proper were mot allowed to raise loans in London or engage in large public expenditures on infrastructure, education or health., thereby suffering from low rates of economic growth unable to keep pace with their high population growth.

These differences make more difficult, if not impossible, the task of establishing the extent to which currency and monetary factors were influential in the development and underdevelopment of colonies. Yet, all these four factors were themselves the result of imperial decision.

One non-monetary theme that underlay imperial thinking on monetary policies, and that on investment in colonies and the raising of loans in London, was the long-held imperial belief, rarely publicly articulated, that in contrast to the colonies proper, the Dominions were expected to be places of permanent residence by British white settlers, to the extent of being financially subsidized at times, by British taxpayers. The colonies on the other hand remained ‘temporary abodes’ of metropolitan capital, with the possibility of the need for rapid return to London. This possibility was explicitly provided for by the imperial authorities when devising the colonies’ currency and monetary systems to include the holding of substantial reserves in London, an advantage also acknowledged by metropolitan investors in colonies at the time the currency boards were being established.

A recent 2009 study (Accominotti et al.) brings together the above themes in an econometric model which establishes the clear economic disadvantages to the non-white colonies, arising out of the elements of racism, the use of force to maintain imperial control, and existence or absence of an ‘exit strategy’. These factors all combined to ensure that Britain could suppress institutional development in colonies because it was ‘acceptable’ for the European nations to use force to deny non-white colonies their normal development. In contrast, the imperial authorities were not prepared to use force on the white settler colonies whose settlers were ‘kith and kin’, and who had proven that white settlers had an ‘exit strategy’ from the British Empire, with the precedent set by the former American colonies in the 18th century, and several others willing also to take up arms against the ‘Mother Country’ in defense of their economic rights, including that over currency.

The policy areas to be explored here are: the currencies allowed or disallowed circulation and their official valuations, the issue of paper currency to resolve monetary stringency, the policy on private commercial banks, policies on central banks, the ability to raise loans in London for colonial expenditure, the patterns of investment into the colonies, facilitation of public expenditures by the colonial governments, the dominions’ sterling reserves policies, and their early diversification away from sterling towards the US dollar.

The following sections bring out the parallels between our previous accounts of all the progressive colonial proposals for currency and monetary reform which were battened down by the civil servants[5] in the Colonial Office and Treasury and behind them the Bank of England, while similar proposals from white settler colonies had to be accepted by Britain politically, albeit after some struggle.

Early white settler colonies tackling currency scarcity

Overviews of these early currency conflicts and especially in relation to imperial reactions to the issue of paper currency in the North American colonies, may be found in Nussbaum (1957), Lester (1970) and Galbraith (1975).[6] A central monetary problem for British white settler colonies in the New World was that they suffered from scarcity of money both because of the rapid growth of the colonial economy and because of Britain's restrictive policies which either drained colonial currency or stopped the colonies from implementing alternative policies such as the creation of flexible paper currency systems.[7] First, the growing colonial need for commodities from the Old World meant that there was a tendency for colonies to require a net export of currency to Britain.[8] Second, the absence of banking facilities meant that colonial currency supplies were widely scattered with low velocities of circulation. Third, British mercantilist laws prohibited the export of coin to colonies, while Britain vetoed similar colonial government laws which tried to ban the export of coin and bullion from colonies. Fourth, foreign coins like dollars and doubloons were discouraged whenever Britain's imperial wars with Spain and Portugal led to the suppression of colonial trade with them. Fifth, British insistence on valuing foreign coins at rates lower than their international value led to their export wherever the law could be made effective. Given that in this period, much of Britain's bullion was derived from the decaying Spanish Empire, the net flow of specie was usually *from* the colonies *to* Britain.[9]

Britain also prevented or outlawed mints which were set up in colonies, fearing that bullion might be drawn from Britain.[10] The resultant scarcity of money had disastrous effects in the settler colonies: trade was discouraged, credit and commercial growth severely constrained, and reputable freeholders found it impossible to pay debts which were insignificant in comparison to the value of their estates, which sometimes had to be sold at ruinous prices in settlement of debts (Hacker 1940:158). These issues and colonial responses have been discussed at length in Chapter 3. Here, we focus on paper currency.

To tackle their severe shortages of currency, colonies attempted to issue fiduciary paper currency,[11] but these were also discouraged by Britain, despite the fact that Britain itself had successfully used paper currency issued by the Bank of England, at times countenancing excessive inflationary issues

by suspending convertibility into gold. What was considered quite appropriate for the imperial goose, was not considered appropriate for the colonial gander.

Colonial United States

While the colonies later to become 'United States' were not ever regarded as 'dominions', they were a major avenue for British investment, and the colonial governments' conflicts with Britain had a profound influence on British opinion as to what the possible consequences might be of imperial attempts to enforce currency policies deemed unpopular by the colonial white settlers. Accominotti et al. referred to this as the 'exit strategy' available to white settler colonies but not to non-white colonies in the British Empire.

In the American colonies, Benjamin Franklin had advised (Hammond 1957:16) that 'the colonial legislatures be empowered to issue any amount of paper money required for the purposes of revenue, trade, business, and agriculture, the bills to be let on collateral security, deficiencies in the security to be guarded against by funds obtained from taxes, and the interest on loans to be used in meeting current expenses'. The issue of bank notes by the Land Bank Manufactury Scheme of Massachusetts issued bank notes secured by the real property of the note holders whose debt could be repaid in manufactured goods or produce, including those brought into existence by the credit itself (Galbraith 1975:65). It was however opposed by Boston merchants and Britain. In 1741 the British authorities closed the bank on 'questionable legal grounds' (Nussbaum 1957:21–2).

In 1751, the English Parliament prohibited the further issue of legal tender notes in New England colonies and ordered the withdrawal of circulating bills of credit. The measures were extended to other colonies in 1763, and between then and 1773, Parliament passed more general acts preventing paper bills of credit from being declared legal tender (Chalmers: 22–23).

One imperial justification for the prevention of colonial government note issue was the possibility of inflationary issues. Galbraith (1975:62–64 and 1987:144–51) has convincingly argued that generations of historians have perpetuated the myths of universal colonial inflationary issues of paper currency while ignoring the many satisfactory paper currency experiments by colonies. Pennsylvania, New York, New Jersey, Delaware and Maryland, all handled paper money with 'general prudence and restraint'. Very successful examples were the 1723 issue of bills of credit in Pennsylvania by a government bank. There was also a 1742 issue of bills by Massachusetts, innovatively authorizing judges to increase equitably the amounts payable in case the bills should depreciate in relation to English silver coins, and in 1747 also went on to try to protect against inflation (Nussbaum 1957:19). Galbraith (1987:149, 145)) concluded that the 'era of free banking and its relatively relaxed aftermath were strongly favorable to economic development'

while 'established centers of commerce and industry' preferred that money should be 'kept scarce and valuable, as those already possessing it had every reason to wish'.[12]

Britain was not opposed to *all* issues of paper money by colonial governments. In Massachusetts, they had authorized the issue of bills in 1690 to help finance King William's war against the French colonies. Galbraith (1975:65) argued that historians have given insufficient weight to the conflict of interest between the colonies and Britain in the latter's suppression of colonial note issues. Hacker (1940:174) noted that one of the bones of contention in the American War of Independence was the legislative power over issuing money. By the time Britain did come round to conceding some autonomy in 1773, it was too late and the imperial shackles were thrown off, a lesson which Britain took to heart in their subsequent responses to the Canadian and other white settler colonies, despite initially resisting.

The conflict between colonial governments or state legislatures and private banks over the powers of note issue also existed in newly independent United States. Hammond (1957), Hurst (1973), Beard (1913), Hacker (1940) and Brunhouse (1942) indicate that private banks were able to triumph over federal and state legislatures to ensure that private banks retained relatively free powers over currency issue. Rothbard (2002:62–93) has interesting and debatable accounts of the rise and fall of the first private commercial banks (Bank of North America, the first Bank of the United States and the Second Bank of the United States) which were also given the effective powers of central banks, issuing inflationary paper money to finance the federal government as well as other private banks.[13]

Canadian colonies

In 1812, during Britain's war with the American colonies, the Provincial Parliament of Lower Canada was allowed to pass Acts for the circulation of Army Bills, which was perceived as a 'seasonable and judicious experiment' with 'unprecedented success', but the notes were later withdrawn (Chalmers:182). Chalmers (1893:186) noted that many currency bills were passed by the Legislatures of both Upper and Lower Canada, even if they did not receive Royal Assent.

In 1837 there were rebellions in both upper and lower Canada. In Lower Canada, an English-speaking minority controlled power, but were opposed by an Assembly, which was French. The Colonial Office was prepared to accept some reforms, but not an elected Upper House, which would allegedly hand financial control to the French (Eldridge 1978: 20–21). The Governor dissolved the Assembly: British forces suppressed rebellious republican organizations. The subsequent Durham Mission recommended concessions, some of which were granted, although Britain would not relinquish control of colonial constitutions, foreign relations, trade policy and the disposal of lands.

By 1840, the Colonial Office was admitting (Eldridge 1978: 33) 'Canada appears to have shaken off, or laid aside, the colonial relation to this country, and to have become in everything but name, a distinct state.... There are this moment in Canada, almost as many Europeans as there were in the United States when they declared their independence-a very pregnant fact.' In Britain itself, the rights of the sovereign to select the party to hold office was curtailed, giving way to the House of Commons. By 1848, Nova Scotia was granted self-government, followed later by New Brunswick and other colonies, in North America.

In 1854, Canada signed a Reciprocity Treaty with the United States for duty-free entry of each other's products. In 1859, despite the protests of Britain, Canada imposed heavy import duties on manufactures which could be produced in Canada, claiming that (Eldridge 1978:42) 'Self-government would be utterly annihilated if the views of the Imperial Government were to be preferred to those of the people of Canada'. After this confrontation, it became practically impossible for Britain to impose its trade policy on the self-governing colonies.

Eldridge (1978:43) concluded that self-government had to be granted 'Partly to avoid another American Revolution, partly through necessity as events gathered momentum and colonial pressures grew partly at the desire of British politicians – in the light of recent changes in British constitutional practice.' The granting of self-government did not however imply the relinquishment of 'Empire': 'Indeed from the 1840s a new idea of a great imperial destiny to plant British people and institutions overseas developed, based on the twin foundations of British emigration to, and investment in the colonies of British settlement'.

In 1866, Canadian Provincial notes were issued, which became Dominion notes in 1868. Twenty percent of the first $5 millions were backed by specie and the remaining 80% by provincial and dominion debentures. Beyond this sum, the proportion in specie increased, but only to 25% while the proportion in debentures was reduced to 75% (Chalmers 1893:199–201).

In 1870, the normal issue allowed was increased to $9 millions (covered 20% by specie and 80% debentures), with any excess completely covered by specie. Significantly, however, even the latter rule was found to be too severe a constraint and from 1872, the excess over $9 millions was allowed with a backing only of 35% specie. By 1880, the maximum issue had been raised to $20 millions (covered 25% by gold and Dominion securities guaranteed by the British Government, and 75% in Dominion debentures. Any excess over $20 million was to be completely covered by gold. Thus, in the Canadian Dominion note issue, roughly 85% of the normal issue could be fiduciary, with the latter covered by local colonial securities.

In Canada also, private bank notes issues were allowed, with the banks initially required to hold only one third of its reserves in Dominion notes. By 1891, the proportion required had risen to 40%, but there was no minimum

requirement for the absolute level of reserves. Thus at the end of 1891, both the private and dominion bank notes were covered by gold only to about 22%, with the remainder in Dominion securities (Chalmers: 205–06).

Australian colonies

Faced with monetary anarchy in the earliest Australian colony, New South Wales, Governor Macquarie gave a charter to Australia's first bank of issue, the Bank of New South Wales, following which other banks were soon established. Without any central control, banks failed regularly in the nineteenth century, with a large number collapsing in 1893 after the failure of fraudulent Victorian land banks.

In Australia, the struggle for independence from Britain was led by New South Wales. Although by 1842 there were colonial legislative councils and elected district councils, there were protests at the limitation of franchise. In 1851, New South Wales increased their pressure for self-government through a 'Declaration, Protest and Remonstrance', which demanded an end to imperial control of taxation, land policy and revenue, a dilution of the Crown veto, and a Constitution similar to Canada's. Through 1852 and 1853, substantive concessions were granted towards self-government, with the Secretary of State conceding (Eldridge 1978:39). 'All will agree as to the extreme difficulty of withholding political privileges from bodies of men to whom maxims prevailing in British domestic policy afford so strong a right to claim them, and of keeping our fellow-subjects in Australia on a different political footing from those to whom these rights have been fully conceded in America'. It was acknowledged that, since change would come anyway, it may as well be granted.

Colonial New Zealand

In New Zealand, an 1847 Ordinance had been passed to create a State Bank with monopoly powers of issue, the objective being to provide a stable paper money, which would replace to some extent the inconvenient coin (Bedford 1916: 269). The regulations required a 25% reserve of specie against the notes, with the remainder being invested in British Consols earning 3%.

By 1856, after extensive demands, New Zealand was also granted responsible government status. The same year, the State Bank was converted into a private bank. While there might have been opposition to Government control and the possibility of uncontrolled issue of Government debentures, the major criticisms were directed at the Bank's investment policy and the rigidity of the note issue and unsuitability for fostering growth in the economy.

Bedford (1916:273) and Simkin (1952:321–22) noted the major colonial complaint that NZ surplus funds were invested in British securities at 3% while the Colonial Government was borrowing in London at 8% and the Provincial Government at 10%. While the Governor had originally planned

to lend the surplus funds to the Colonial Government through Government Debentures, the British Secretary of State had not approved it. NZ colonists, however, refused to 'look with equanimity on the withdrawal of many thousands of pounds from their own country to be invested in London at a low rate of interest while they were borrowing from London at a rate 100% to 200% more'.

A second criticism was that the State note issue was too rigid and unable to respond to the legitimate needs of growing commerce and trade. A Parliamentary Committee of Inquiry found that the State Bank, as then constituted, only economized on metallic coinage. By preventing the use of other forms of wealth such as property, as a basis for paper currency, it constrained the supply of currency, which should have been allowed to grow flexibly according to the needs of commerce, under judicious management.

In New Zealand, private banks were granted rights to issue notes provided they were convertible, and did not exceed the amount of coin, bullion and public securities held in the Colony. The coin and bullion were only required to be a third of the note issue. These provisions were not modified until the outbreak of World War I (Simkin:322).

White settlement and imperial financial policies

Historically there has never been any doubt about the ethnic preferences of Britain and the Dominions. In the 1890s Britain became a solid contributor to schemes of passage assistance and colonial land settlement for white settlers. Appleyard (1971–72) noted that 'The genesis of change was the recommendation of the Dominion Royal Commission in 1917 that the Empire's raw materials and commodity market should be controlled for the well-being and safety of the whole Empire and that policies of migration, investment and tariff preference should be linked together and form the basis of Empire self-sufficiency. Concerning migration, it was recommended that settlement of Britons in the Dominions should be the root of total Empire development'. Over the period 1925–32, only one-sixths of funds available to Australia were expended, even though the cost per settler was enormous. For example in Western Australia, 2000 were settled for £9 million (ie £4,500 per settler) although the original estimates had been £1000 per settler for 6,000 settlers. It was recognized that, for development to occur, there had to be substantial investments per settler productively established.

Australian Minister of Immigration after World War II, Arthur Calwell echoed the same sentiment when he stated that not only would British immigrants be accorded highest priority but for every 'foreign' migrant there would be ten people from the United Kingdom. There was no place for persons who could not meet the Caucasian racial qualification, and issue at

Federation, with the near invasion by Japanese forces only hardening the White Australia attitudes towards Asians.

The 1930s imperial federation proposal and white exclusiveness

The distinction that Britain made between the dominions and the colonies proper may be seen in the attitudes of both Britain and the dominions to India when 'Round Table' discussions were held on imperial federation as a British strategy to counter the challenges to its international commercial and industrial supremacy from the other European powers, US and Japan. The Round Table Members faced a real conundrum. If India were included as a full and equal member in the imperial federation, she would totally dominate any imperial 'House of Representatives' elected on a *per capita* basis, totally swamping the Anglo-Saxons. Yet, excluding India from the 'Empire' would be anomalous, given its immense economic importance to British imperialism.

Mehrotra (1961:31) pointed out that India, given its crucial economic importance to the British balance of payments, had the strongest a priori grounds for being a full member of the Federation: she virtually paid for everything that she got, as well as the huge expense of the British military activities in the East and Middle East; India was virtually federated for commerce and defense with Britain and directly under the control of the British parliament. By contrast, the white settler colonies demanded and received much, gave little in return, while discriminating against British goods. Mehotra saw two disparate elements in the British Empire 'the one white and self-governing, "Greater Britain"... and "Empire of Dwelling places"... a "Commonwealth" the other non-white and dependent... belonged to the "sphere of rule"... the true "empire" in the classic continental tradition'.

Similarly, Koebner (1965) concluded that in the Colonial Conference of 1887, 'from the expression of the main speakers of the Conference and writers on colonial affairs that the Irish, French, Dutch, or West Indian elements-not to speak of the Indian-were often left out of the mental picture of Empire which was presented to the public.' Kennedy (1981: 30–31) noted that pro-federation writers and politicians saw the integration only with the white settlers of Canada, Australia, New Zealand and later, the Union of South Africa. The solidarity was not to be extended to all British colonies.

The dominions themselves had similar sentiments. Meaney (1967) points out that, for Australians, the conception of any kind of union with the Mother Country was that of Anglo-Saxon race solidarity. Similarly, New Zealand's proposal for an 'Imperial Parliament of Defence' included only the white dominated settlements of Canada, Australia, New Zealand, Newfoundland and South Africa.

Ironically, Joseph Chamberlain was convinced by the 1897 and 1902 Conferences[14] 'that the colonies (white) were prepared neither for a political federation, nor, so to speak, to follow India in the matter of free trade

and the provision of armed forces'. Yet in his proposals for imperial unity, he completely ignored India, despite protests from previous Viceroys and Secretaries of State for India.

Even in 1909, when the Dominions had long been discussing the grand concept of Imperial Federation, the British were merely offering the sop of the Morley-Minto Reforms to India, with a steadfast refusal to grant self-government, or even to suggest a tentative timetable for the future evolution of Indian self-government and responsible government, along the lines of the Dominions. After 1909, the Secretary of State for India (Crowe) was repeatedly affirming in Parliament, that the object of British policy was the maintenance and perpetual continuance of British rule in India, and that he saw absolutely no future for India as a self-governing colony, along the lines of the Dominions.

While there seemed to be the gradual evolutionary developments in the Dominions, Britain went completely opposite to the grain in India. Eldridge (1978: 58) observed 'British policy towards India was the antithesis of the ideals of free trade, laissez faire, responsible government and limited expansion promoted in other parts of the empire. Even the strongest advocates of free trade and laissez faire became manipulators of tariffs and bureaucratic planners where India was concerned'.

Eldridge argued (1978: 58–72) that the economy of India was destroyed, and made a periphery of the British economy via 'legalized exploitation': through wars, appropriation of states through subterfuges, through manipulation of tariffs, through enforced and highly exploitative rent collections. There were no attempts to grant responsible government in India, as had been conceded in the white Dominions. Eldridge noted (1978: 223–24) the farce of the legislative councils created in India in 1861. 'The object seems to have been to associate influential Indians with the government rather than to obtain a genuine representative element in the legislatures. All real powers remained with the Viceroy's Council. It was, as Sir Charles Wood, the Secretary of State for India (1859–66) described it, a "despotism controlled from home"'.

With political opposition neutralized by brilliant manipulation of Indian princes and states and by creating buffer classes of landlords, the imperial authorities ensured that local Indians would not gain experience of government through the Indian Civil Service. Indians were actively explicitly and implicitly discouraged from entry; Civil Service exams were held in England; low maximum ages were set for entry (reduced from 21 to 19) and potential leaders carefully excluded. There was utterly no attention paid to the great 'civilizing mission' many apologists claim to be the saving grace of imperialism.

The white settler dominated colonies of Southern Rhodesia and Kenya

While not called 'Dominions', despite the control of government by white settlers, the currency boards of Southern Rhodesia and Kenya, were locally

controlled and the investment policies were also more locally orientated than in the other colonies. In the banking sector, the more active lending policies also implied a much larger contribution to the money supply by the banks, for both Kenya and Southern Rhodesia.

It is also relevant that British imperial authorities displayed sympathy, even for white settlers such as the Boers, in colonies which erupted into war against Britain, and a willingness to discard the interests of the black majority. With the discovery of major gold reserves in the Transvaal, there rose the possibility of an independent state emerging in South Africa dominated by Afrikaaners, posing a threat to British paramountcy and the sea route to India. Britain was led into the 'Boer War' by Rhodes, Milner and Chamberlain. Despite massive numerical advantages and the 'scorched earth' and other barbaric policies followed by the British, Australian, NZ and Indian troops, the Boers defeated them. There was enormous sympathy for the Boers in not just Europe and America but also in Britain itself. Balfour noted (Eldridge, 207) 'were I a Boer…nothing but necessity would induce me to adopt a constitution which would turn my country into an English Republic, or a system of education that would reduce my language to the patois of a small and helpless minority'. The British public was also outraged at the British barbarities inflicted on the Boer communities.

When peace was eventually negotiated, one of the conditions agreed to by the British was that the voting rights of the Bantu people would not be dealt with before the granting of self-government to the South African colonies. In a country where the British were outnumbered by Afrikaaners, and both were outnumbered by Africans, Milner's answer was (Eldridge, p.210) 'The ultimate end is a self-governing white community, supported by well-treated and justly governed black labour from Cape Town to Zambesi'. Eldridge found it remarkable that, within five years of the end of the Boer war, the British handed back the conduct of the internal affairs to the Afrikaaners, despite the stipulation of an all-white electorate by the new constitution.

Banking in white settler colonies

Most if not all the dominions had bank development experiences which contrasted with those of the colonies proper. Dynamically growing economies required banks that were responsive to the financial needs of the domestic economies, including agriculture. All the dominions had branch banks of the established London banks.

J.S.G. Wilson (1952) and W.F. Crick (1965) give excellent accounts of the history of the Australian trading banks, which by and large dynamically served the wide diversity of needs of the growing Australian economy, especially its rural agriculture. Wilson notes (p.18) that, in the 1930s, the advances deposit ratio of the Australian banks (around 80%) was much higher than that of the London banks (40%). In 1911, the Australian Federal

Government formed a central bank – the Commonwealth Bank of Australia, backed by government resources which by and large regulated the other trading banks through 'moral guidance'. Then, with the onset of World War II (WWII), and the raising of war loans, the Commonwealth Bank was given powers to prevent trading banks from encouraging inflation, not make excessive profits, to coordinate lending, and to control interest rates. In 1959 the CBA's powers were transferred to the Reserve Bank of Australia.

Simkin (1952) and Quigley (1992) have excellent accounts of the dynamic but volatile evolution of banking in New Zealand (NZ) in the nineteenth and the first half of the twentieth centuries. With the NZ banks raising funds in London and suffering every time there was a crisis there, attracting funds away, the NZ government struggled to ensure that the banking system served the real needs of the NZ agro-based economy. In the period up to 1930 there was 'free banking' without any central bank, but there did exist government regulation, which required a parliamentary charter to be obtained first. Quigley outlined how the banks were free to issue notes, but '(a) the notes in circulation could not exceed the total of gold coin, gold bullion and public securities held in New Zealand, or more than three times the gold coin held in New Zealand; and (b) the 'debts, engagements and liabilities' of the banks should not exceed three times the gold coin, gold bullion and public securities held in New Zealand.' These were designed to ensure that excessive credit structures were not created. After 1914 convertibility into gold was not longer required, but assets other than gold could be used as part of the reserve securing the note issue. Thus NZ banking, which had to provide monthly returns to government, were not restricted in the manner of currency boards, but shareholders had to carry double liability should the bank become insolvent.

In 1933, following a review of NZ's banking system by the Governor of the Bank of England, legislation established a Reserve Bank of NZ, not surprisingly modeled on the Bank of England. It was to be privately owned, although the initial reserve, and the Governor and Deputy Governor, would be provided by the government. It would have monopoly powers of note issue, but would be required to have only 25% of its demand liabilities in reserves of gold or sterling.

Following the 1935 Labor victory, however, the NZ Reserve Bank was nationalized and required to give effect to Government monetary policy. It was required to grant accommodation to the Treasury up to the full estimated annual revenue, and to give overdraft to the state marketing organization for dairy produce, and to suspend the free trading of sterling. From 1942 the Reserve Bank began regulating the sectorial composition of the loan portfolios, to reduce speculation as well as direct loans to priority war areas. This continued after the war to ensure that the production, processing and financing of exports were given priority. Later the restrictions included loans for capital expenditure purchase of farm properties, but liberalized in 1950.

That year the reserve requirement was modified to simply require a reserve which provided a 'reasonable margin for contingencies' (Simkin: 333–34), in contrast to colonies proper, which would be required to hold 110% outside reserves. Up till 1951, the investments of the Bank were all in NZ Government securities, although some of the latter were convertible into sterling. From 1950, the Reserve Bank could hold as reserves, deposits in the central bank of any country freely convertible into sterling.

In South Africa, it was recognized that there was a need for state-based banks which would free them from domination by London-based banks and reduce the loss of profits abroad.[15] With the 1942 Banking Act, the imperial banks could not use South African assets to finance losses abroad unless the statutory reserve requirements had been exceeded. While local criticisms were that the London banks were not responsive to local shareholders and local interests were sacrificed to foreign interests, there was also the advantage of spreading risk.

Balogh (1959) has an extremely perceptive account of the inability of metropolitan banks to serve the needs of colonies. He notes (1959:21–22) 'colonial banking systems grew up to serve the needs of metropolitan areas for the reliable and cheap supplies of raw materials ... by keeping the colonial monetary unit absolutely stable'. It 'riveted' the existing distribution of resources in the colony, cheapened the finance of exports and imports and drew scarce capital away from the colonies, with no finance for local infant industries. Balogh points out that 'all this contrasts sharply with the country bankers in the United Kingdom and the United States who provided the basis of the industrial and agricultural revolution'. The colonial system, 'by making all long term expenditure dependent on long-term loans floated in London ... conferred on private financial interests, and especially on overseas banks operating in the metropolis, an absolute veto power on policy decisions in dependent areas'. Opposing the establishment of central banks in colonies was part of the picture. Balogh points to the 'shining example' of the Commonwealth Bank of Australia (1959:23): 'It helped, in circumstances not unlike those obtaining in Malaya, in financing development and in protecting the interests of small primary producers .... It also enabled the Central Bank to put pressure on the banking system .... prevented extreme fluctuations in the terms of trade ... and the even tenor of economic development and on full employment.'

What this brief account of banking in white settler colonies has shown is that, despite the occasional instability in their banking systems, the occasional close-down of a bank, and the frequent mergers, these banking systems served the financing needs of their growing economies. Granted, their task was much easier than that of the colonies proper – the latter did not enjoy the large inflows of foreign capital and borrowed funds that could have financed balance of payments deficits.

The banking systems of the colonies, on the other hand, were battened down with every excuse: the imperial decision-makers claimed to want to

'protect' the colony from capricious banks – or even central banks, which could manage the colonial money and be a source of finance to the colonial governments. What they could not achieve at all in dominions, they achieved with the utmost of administrative ease in colonies.

There is also considerable evidence that, when it came to the large imperial banks operating in colonies (probably in the control of British investment) the 'Lords of the Treasury' were totally inclined to giving them the freedom of note issues, because of the profits associated with them (chapter 3).

It would be an interesting area of research to examine how the dominant metropolitan commercial interests in colonies, fitted into the imperial hierarchy of priorities. As with British civil servants receiving imperial honors from the British Crown, it is suggested that there probably were systematic patterns of imperial awards given to white settler corporate leaders in colonies. Fiji certainly had an extremely high proportion of such knights in their political line-up.

The dominions' break with Britain

Despite receiving relatively favorable treatment from Britain, the dominions still saw the need to formally break away from the British Empire. Why they did so also informs on Britain's relationship with her colonies proper in currency and monetary matters and in general.

The formal break of the Dominions from Britain came in the 1920s (Cross, 1968). In 1925, Britain had separated the Colonial office into two one serving the colonies proper as before and another, the Dominions Office, for the obviously differing needs of the white settler colonies. Even Southern Rhodesia, not formally a Dominion, frequently worked through the Dominions Office.

In 1920, the possibility of linking with the American dollar was rejected by dominions. Imperial sentiment, self-interest in the need for British capital, the continuing dominance of trade with Britain, the need for sterling to service past borrowings from London and, not least, the possibility of future weakness in their currencies were important factors. Nevertheless, Australia and the other dominions, were able to achieve a compromise. The Dominions reduced the value of their currencies (in terms of sterling) to encourage dominion exports and check imports. The United Kingdom increased her export of capital to dominions in while also providing official assistance through the Empire Settlement Scheme.

However, after Britain's return to gold at the pre-war parity in 1926, the Dominions demanded further capital from Britain. Facing continuous balance of payments drains because of an overvalued sterling, Britain imposed an intermittent embargo on overseas issues including the dominions. The embargo eventually had to be dropped because of Britain's inability to control outflows. While a special committee had felt that

£100 million annually should be the limit to foreign issues, new issues totalled £200 millions in 1925–26, with a half for the empire, and three-quarters of that for Australia and New Zealand.

In 1926 came the demands for the removal of formal supremacy of Britain over the Dominions with South Africa (led by Hertzog) and Ireland in the forefront of the movement. The 1926 Imperial Conference determined that the Governors in the dominions would not represent the British Government but the King personally and that their responsibility would not be to the Colonial Office. By 1929, South Africa and Australia had determined that they, and not the British sovereign, appointed their Governor-Generals.

Pressnell (1968) concluded that the outstanding factor in the relations of the southern dominions to Britain was their threat of disengaging from the sterling system. In Pressnell's view the 1931 collapse of the gold standard could also be attributed to the dominion drawdown of sterling balances. With one estimate suggesting a fall of £70 millions of sterling balances between the end of 1929 and end of 1931, Australia herself drew down her London assets from £50 million at the end of 1929 to less than £19 millions by the end of September 1931, besides depleting her gold holdings by an equal amount. Well before sterling's own devaluation, Australia at the end of 1929 and New Zealand in 1930, had delinked from sterling, ran down their London balances, and re-pegged at lower rates which were again adjusted after Britain's devaluation and collapse of the gold standard (Pressnell, 1971).

By 1931, the ground had been established for the Statute of Westminster by which Britain formally surrendered legislative powers she had in practice ceased to exercise. The Colonial Laws Validity Act was repealed, giving the dominions the right to legislate in opposition to Westminster if need be. The judicial unity was also ended by allowing Dominions (except for New Zealand) to limit or abolish appeals to the Empire's Supreme Court, the judicial committee of the Privy Council in London.

In the case of New Zealand, however, the 1926 and 1931 attempts to define and legalize 'Dominion status' were merely ex-post efforts to bring law and stated convention into line with the facts. New Zealand had acquired Dominion status in 1907, but only ratified the Statute of Westminster in 1947, decades after Australia and South Africa. In reality, New Zealand had always had complete autonomy and Fieldhouse uses events in New Zealand in 1877 and 1882 to demonstrate New Zealand did enforce its independence from Britain in social issues. This Fieldhouse saw as originating naturally from the grant of representative and responsible government.

The dominions also may be contrasted from the colonies in the area of trade policy. Eldridge (1978: 234) pointed out that Joseph Chamberlain hoped for commercial union with her entire empire, from which foreign goods could be excluded, safe markets secured, raw materials and food extracted. This however had no appeal to the dominions who 'wished to

continue protecting their infant industries and had no wish to join a free trade area with one of the world's most industrially advanced countries. In many cases, tariffs also provided a source of national – and fiscal autonomy would not be foregone for the sake of empire'. What the dominions refused was imposed on the colonies proper, with all the resultant disadvantages which the dominions had foreseen and avoided.

McKenzie (2006) points out that trade links between Britain and the dominions were far-reaching and significant, even after WWII. The four dominions (Australia, Canada, NZ and South Africa) took over 27% of British exports, but with varying degrees of importance. Australia imported 50% of its goods from Britain and South Africa 40%. The four dominions accounted for 20% of total British imports in 1950. But all recognized that there was little room for this trade to grow; by the end of the 1950s all dominions were looking at alternative markets, while Britain was looking to Europe, but with the colonies firmly shackled as the dominions could not be.

It is interesting that large colonies like Malaysia lagged way behind Australia or Singapore in disengaging their reserves from London, even after political independence. Schenk (2008) points out how Malaysia, right up to 1967, and despite being the second largest government holder of sterling assets in the world, was deceived into thinking that Britain would not devalue her currency. Things changed after the 1967 sterling devaluation. Deeply aggrieved Malaysia felt betrayed, and also some chagrin that Singapore had secretly and cleverly reduced the proportions of their sterling reserves, while absolute amounts were shown to be maintained in London.

The Accominotti model and differential growth paths of dominions and colonies[16]

This section outlines the fascinating work of Olivier Accominotti et al. (2009) who use a quantitative econometric model to investigate the causes and theories of the differential growth paths of dominions and colonies, and present an alternative explanation which is of great relevance to this study. While an econometric model sits oddly in this study which comprises largely historical political economy, nevertheless for economics students and academics, this particular study and its inclusion in this chapter illustrates a fascinating coming together of two fields of economics with both being vastly enriched in ways they would not, in isolation.

Accominotti et al note that Easterlin (1981) saw human capital accumulation, inequality and democracy as accounting for most of individual countries' development paths, while Engerman and Sokoloff (2005b) argued that inequality was caused by the disenfranchisement of substantial portions of the population preventing accumulation of human capital. Acemoglu et al. (2002) attributed the difference to the presence of 'good' or 'extractive' institution. Good institutions were associated with European settlement to suit

themselves, as in Australia, Canada, New Zealand and the United States. By contrast, areas that were rich in 1500 became poor thereafter because 'extractive' institutions were set up to exploit local resources through native or imported slave labor, through rentier classes and elites preserving the old order, and maximizing a European settlers' 'social welfare function', rather than that of the majority non-whites.

The model by Olivier Accominotti et al. (2009) took into account borrowing costs, borrowed amounts and governance frameworks. They examined the impact of 'moral hazard' given that imperial control of a territory supposedly removed the default risk on colonial loans and should have lowered the interest rates for loans, and encouraged excessive borrowing. For settler colonies, the Secretary of State for colonies denied any responsibility for their borrowings, which Britain regulated with the Colonial Stock Act of 1877. Self-governing colonies might have been fiscally sovereign, but they were not judicially sovereign.

Accominotti et al. showed that, in the self-governing colonies, the franchise was not only far greater than those in the dependent colonies, but over and beyond what British elites would tolerate for Britain itself. In white settler colonies, the imperial authorities reinforced democracy, rule of law and property rights, to reduce the 'moral hazard' that they might borrow excessively. The article argued that the success of public spending in self-governing territories 'went along with a substantial measure of political participation and enfranchisement, which made local decision-makers accountable to their constituencies... the closest a country was to a regime resting on government of the people, by the people, for the people, the better it turned out to be'. It argued that such self-governing territories were encouraged to have greater democracy because for them 'exit' from British control was a credible option. 'Exit' of course, was the euphemism for British territories throwing off imperial control when conditions became unbearable, as the experience of the former American colonies testified. But the paper also points out that in Crown Colonies and India, or 'places where natives predominated were just as eager to secure greater representation and the rule of law as places where non-natives were more numerous'. So why did they not have the exit option? Accominotti et al. argued that:

> racism was instrumental in determining development outcomes within the British colonial Empire, through the impact it had on institutional frameworks. The widely accepted view, in the developed world of the time, that violence against native people was a legitimate policy played a crucial role in endowing dependent colonies with bad institutions. Had the white people of the time (British, French, or Americans) believed that the life of black people was worth as much as theirs, the growth prospects of the world would have been very different.... Each country's colonies were treated as a backyard and while there could be ferocious

> fights among colonial powers over the control of given areas, the gentlemen's agreement was that one ought not to support natives against their European rulers. In other words, racism acted as a coordination device and was responsible for the maintenance of repressive institutions ... direct control and repression removed any residual exposure of the metropolitan government to default risk by making sure that no colonial debt would be issued without London's approval.

Accominotti et al. then provided a simple but powerful analysis of the theoretical welfare gains that colonies could have derived through increased loans from the London Money Market. With a normal downward sloping demand curve and horizontal supply curve of loanable funds, being part of the British Empire would normally imply that with imperial power underwriting the loan, the supply curve would shift down to a lower interest rate and the colony should be able to borrow more, with a pure surplus the likely outcome.[17]

However, the reality, according to Accominotti et al., was that dependent colonies were prevented from borrowing. This is shown by several studies: Sunderland (2004:152) pointed out that, before 1900 British monetary and financial authorities had a priority rule preventing crown colonies from tapping the market when the independent area needed funding; Kesner (1981) notes crown colonies' dissatisfaction with restrictive market access imposed by crown agents; while Davis and Huttenback (1986:176) wrote about the 'dependent colonies' hesitancy [to borrow], a hesitancy that reflected at least in part the policy of the Colonial Office to use the London market', with dependent colonies being constrained from exercising this privilege too frequently'. This book shows that it was not the Crown Agents or the Colonial Office that were reluctant to facilitate colonial access to loans, but the British Treasury and the Bank of England.

The 'subjection test statistic' analysis[18] by Accominotti et al. shows that a loans cap for colonies was to the advantage of colonial rent-seeking metropolitan agents who had privileged access to the loans while able to make a return on their capital much higher than the interest rate they pay (reference: Tullock (1967) and Krueger (1974)). These agents would cajole the Colonial Office, India Office or the Exchequer into maintaining a high degree of financial repression, since this amounts to protecting their rents. 'Rent seeking and the repression of democracy is both a cause and a consequence of the regime of political control'.

Accominotti et al. estimated that for the years 1880 to 1913: the interest service on the debt as a share of government revenue was 0.27 for self-governing colonies and 0.12 for crown colonies; the annual average of the pseudo-counterfactual interest reduction (the difference between the interest paid by the colony and the interest it would have paid, if sovereign) was highest (1.92) for self-governing colonies and the lowest (0.12) for

crown colonies; the 'subjection test statistic' in terms of millions of pounds annually was £4.59 for self governing colonies and a mere £0.14 for crown colonies; and the subjection test statistic in % of GDP, was the highest, 3.50% for self-governing colonies and 0.41% for crown colonies.

Dependent colonies lost out since the likelihood is that they would have borrowed more had they been free. By contrast, the governments of self-governing colonies display a much higher statistic because they had larger government debt ratios and their pseudo interest rate savings were also higher. Of great relevance to Third World developing countries, Accominotti quoted from J. McDonald's book, 'it is better to be a free nation deep in debt than a slave nation owing nothing'. India, Ceylon, Jamaica and the other dependent colonies were slave nations, owed nothing and did not grow. Australia, New Zealand and Canada were heavy borrowers, governed themselves and developed.[19]

Accominotti et al. showed that, between 1880 and 1913, governments of self-governing colonies[20] were among the nations that received the highest amounts of capital (4.83% as a share of GDP), as also did sovereign[21] countries (4.08%), while dependent colonies[22] had the lowest (0.85% of GDP).[23]

But another important contrast between sovereigns and self-governing colonies was the composition of foreign capital received. In self-governing colonies a larger fraction of the capital (62%) was collected in the shape of government borrowing, than sovereign countries (35%), which was even lower than the dependent colonies (46%). Empire encouraged less rather than more fiscal orthodoxy. And, contrary to what some might have expected, the tight fiscal constraints upon dependent colonies did not crowd in private investment.

In crown colonies and the dependent empire, where coercion was available, the European institutions and ideals were laid to rest. After the Sepoy Mutiny of 1857, India was placed under the authority of a Secretary of State who was a member of the British cabinet. Debts could not be contracted without the approval of the India Office. In crown colonies, the decision-making on borrowing was simply transferred to London, using violence or the threat of violence, which was possible against native peoples, but not against white settler colonies. Colonies proper were simply not allowed to borrow.

In the crown colonies, such as Ceylon or Jamaica, finances were run by a London-appointed bureaucracy, the 'crown agents' who were London-based private monitors who acted on behalf of the British government and were responsible for marketing in London the securities of the crown colonies. They kept the finances of the dependent colonies on a tight leash. They could and did veto external loans when 'prospects for borrowing appeared doubtful' (Kesner 1981: 61; Sunderland 2004, passim) although our chapter 7 has shown that the Crown Agents did attempt to stand up for colonies interests but were usually battened down by the Colonial Office, Treasury and Bank of England.

Accominotti el al argued that the outcome of this was financial repression in the colonies. The direct result was that those that were politically managed and controlled from London (such as the crown colonies and India) borrowed little in aggregate and had modest indebtedness ratios. They were not able to source foreign capital exports from London and performed poorly in terms of economic growth. The results were different for the white, self-governing, provinces, where external government borrowing and government indebtedness were highest and where the degree of autonomy was maximum, leading to higher economic growth.

It is interesting that a rigorous quantitative econometric model reaches the same conclusions that political economy has provided for decades. Is there a lesson for here for university economic departments which devote far more teaching, research and publication resources to econometric modelling, often to the complete neglect of traditional political economy?

Conclusion

For decades, development economists and international financial institutions – such as the IMF and the World Bank – have been advocating countries such as Taiwan, Korea, Hong Kong and Singapore as ideal economies to emulate. It is strange that, for resource-rich former colonial economies like those in Africa, there has been little attempt to present the white settler dominions as possibly the more practical and relevant models. Yet the analysis here suggests that had the colonies proper received a century of international investment, loans from the London money market, public expenditure programs on infrastructure, health and education, and essential financial institutions like central banks – as the dominions did – they would in all probability have been as developed as the dominions by the middle of the twentieth century. An essential part of this economic growth model is the currency, money and banking arrangements that Britain allowed (or was forced to allow) the dominions, which it refused to the colonies proper.

The contrasts between the white settler colonies and the colonies proper and their eventual economic outcomes, also adds an interesting dimension to an old debate about foreign investment (capital) as being an essential part of imperialism, seen by Lenin as an exploitative system. Ironically, despite his denial of imperialism as an exploitative system, Warren (1980) pointed out, in a view shared partly by Argirri Emmanuel (1972) that what colonies needed was not less, but more foreign investment, as it was precisely the lack of foreign investment that kept them undeveloped.

Emmanuel (1972: 54) gave a breakdown of British investments in 1914 with more than 80% going to the United States and the dominions (including South Africa) and minimal amounts going to the colonies proper. Emmanuel (p.56) noted that 'those who stress the obnoxiousness of foreign investments and multinationals are therefore completely out of touch with

the reality of the underdeveloped countries ... all ... are doing their utmost to ... attract foreign capital'. But Emmanuel (1972) also noted that one of the problems of 'mixed' colonies, dominated by white settler minorities, was that surpluses made by the white settlers and their enterprises were not reinvested in the colonies, as in the dominions, but exported back to Britain, where they were expected to eventually return, or reinvested internationally. For many developing countries, the moot point is whether investors, whether they are 'foreign' or local, reinvest their surpluses. One of the paradoxes in many developing countries is that local capitalists grow faster because of state subsidies, yet still export their surpluses as an insurance against devaluation of the local currency.

One of the results of the enforced holding of sterling reserves by colonies was the huge capital losses that holders of sterling suffered whenever there was a devaluation of the sterling as in 1931, 1949 and 1967. Despite the post WWII reserves policies, Strange (1971:90, 91) notes that British financial policy allowed continuing flows of investment capital into Australia. Nevertheless, between 1961 and 1965, while Australian reserves were falling, Australia kept increasing her gold and dollar reserves, and moving from cash sterling to interest earning sterling securities. Thus by the 1967 sterling devaluation, Australia did not complain too bitterly about the estimated 50 million loss in value to her sterling reserves, because Australia had borrowed so heavily from Britain, that the capital loss was balanced by the annual saving of an equivalent amount in repayment. The colonies proper suffered the capital losses from the devaluation in sterling, without enjoying any of the benefits of British investment.

Schenk (2010) The Decline of Sterling: Managing the Retreat of an International Currency, 1945–92 has an excellent account of the negotiations between Britain and the major sterling reserves holders prior to the 1967 devaluation.[24] Of relevance to this book is the stark contrast between the concessions made to Australia and New Zealand, and that made to Malaysia, Singapore and Hong Kong, colonies proper. Australia was concerned that there be no restrictions by Britain on the flow of its investments to Australia which had kept increasing. Interestingly, Singapore was aware of the 40% Minimum Sterling Proportion (MSP) agreed to with Australia, but not the 47% unofficially agreed to. By the time of the 1967 devaluation, Singapore only held 50% of its reserves in sterling, in contrast to Malaysia, which had 77% and consequently suffered a much larger loss than its smaller but more astute neighbor (Schenk, 2010:304).

While negotiations between Britain and Australia and Malaysia had led to these two countries accepting 40% as the MSP for their reserves, Hong Kong, due to its 'colonial status' had agreed to a much higher 99%, though also including banks reserves in that figure. Hong Kong which had about 400 million pounds by the 1967 devaluation, lost 30 millions, while the banks lost £20 to £25 millions. The colony governor 'wrote passionately

that "I find it difficult to find words to express my feelings and those of my advisers, official and unofficial, on the manner in which Britain has now defaulted on its very large net financial obligations to Hong Kong".' Schenk notes that many in the UK Treasury thought that the indignant response of the Hong Kong Governor, the Finance Secretary and the Executive Council was 'neither here nor there'.

This callous reaction of British Government financial decision makers right at the historical end of sterling's empire embodies and illustrates the essence of imperial attitudes to colonial interest throughout the history of colonial control by Britain, and the resulting contrasts between the monetary and economic trajectories of the dominions and colonies proper.

This chapter has brought out the interesting similarities between imperial policies towards colonies proper and the early white settler colonies, as well as the contrasts after the white settler colonies had demonstrated that they had 'exit strategies' from imperial control when it became exploitative and discouraging of colonial development. As done econometrically by Accominotti et al, this chapter also underlines the inter-connections between imperialist currency and monetary policies, with sociological theories of twentieth century racism by imperial powers towards non-white colonised people. The historical reality that white settler colonies were clearly able to develop faster and be more broad-based to the extent that they became 'developed' economies, gives credibility to explanations of colonial under-development that see imperialist control as an important factor.

10
Conclusion: Implications for Theories of Imperialism, Underdevelopment and Money

Introduction

D.K. Fieldhouse (1996: 111) has a box questioning '*Money – an imperial tool?*'[1] This book has effectively been one answer to that question, providing a systematic historical monetary perspective largely missing from most studies of British imperialism.

The lack of in-depth discussion about the role of currency and money in empires is somewhat surprising, given that it is the state that has the formal legal power to define what currency and money is allowed in their jurisdictions, money is at the heart of all economic transactions domestic and international, and given that economic relations are at the heart of all empires.

Monetary textbooks rarely have historical accounts of the evolution of money, despite the numerous controversies that money has generated over the centuries. Houghton (1991: 28) noted that very early on the great economist Ricardo 'deduced, while killing off the history that had been so central to the *Wealth of Nations'* by Adam Smith. This book may therefore be a thought-provoking 'antidote' to the static, rational, and theoretical approaches of modern monetary economics. This book should also complement and supplement the many studies focused on the international political economy of money and relations amongst the monetary 'superpowers', such as *The Politics of Money* (B. Johnson 1970); *Sterling and British Policy* (Susan Strange 1971); *Money and Empire: the international gold standard* by Marcello de Cecco (1974); *A History of Gold and Money* (Pierre Vilar 1976); and *A tool of power: the political history of money* (Wiseley 1977).

This chapter first outlines the typical neoclassical views of money and colonial currency and the methodological strengths of this book. There is then an extended discussion of the debates on imperialism and colonial underdevelopment and the implications of the historical colonial currency experiences. This is followed by a brief discussion of the implications for

Marxist monetary theory, the role of academia in imperialism, and possible lessons for the current world currency (the US dollar) and future challengers such as the Euro and Chinese renminbi.

Neoclassical view of money to be qualified

Monetary textbooks invariably begin by explaining the 'ideal functions' of money as medium of exchange, unit of account, store of value, and means of payment.[2] At the macroeconomic level, they move on to other important criteria: the ability of the supply of currency to grow along with the growing economy; the ability to be used as international means of payment; where a new currency system was created, the appropriateness of the composition and level of reserves, and the exchange rate with foreign currencies; and where the currency was partly or completely a token, the disposition of the seigniorage profits of currency issue. Colonial currency systems therefore tended to be assessed on similar criteria. Helleiner (2002), for instance, examined the origins of colonial currency blocs from the point of view of international transaction costs, domestic transaction costs within the colonies, macroeconomic influence, seigniorage, and in common with this book, political identities.[3]

The 'static rational' and ahistorical approach implicitly treats money as a mechanical facilitator of trade and capital flows in capitalist markets. Some monetary theorists even see money as merely a veil over the exchange of real goods and services (Patinkin: 1956). This view is understandable given that for long periods of time in most countries' economic histories, money is in the background, quietly serving all its usual economic roles without drawing any attention to itself. The most common public concern has been price inflation, which reduces the real value of money and affects exchange rates, but the debate usually focuses on perceived excessive increases in money supply initiated by governments or private speculative banks, over and above the needs of real economic growth.

It is only when some essential intrinsic characteristic of money is being changed by policy or external accident of history that the public become aware of one or other of the basic functions of money. Public attention is usually the result of conflict between those who think they are gaining and those who think they are losing from the changes. It is almost inevitable, therefore that this book's attempt to outline and explain three centuries of British manipulation of colonial currencies in an empire 'where the sun never sets', will have many instances of monetary changes and disturbances, which affect the basic functions of money which in turn, are given flesh, blood, substance and importance, that the dry and barren theorization of monetary textbooks fail to give.

Money has always been perceived by imperial decision-makers to be far more than a veil. Its multifaceted nature has not only been perceived to

have had significant impacts on the flows of the real domestic economy and foreign trade of colonies, but vastly differential impacts on the welfare of imperial and colonial interests, and the different classes *within* these two generic interest groups, such as foreign and local traders, exporters and importers, agrarian and urban producers, and native and foreign consumers.

Methodological strengths of this study

Monetary authorities rarely reveal their deliberations to the public: any sensitive official records, if they exist, are by law either kept confidential for decades or destroyed. One strength of this study is the use of extensive official historical correspondence between authorities in London, and with the colonies, that reveal the actual imperial thinking behind proposed changes in colonial currency policies. The focus has been very much on why, how and where particular imperial decisions on colonial currency policies were actually made, and not on the historical economic consequences of the policies on colonies, although the latter may be clearly deduced. These decisions therefore must help us understand the impact of imperialism in general, especially where the negative effects of some particular imperial policy have been acknowledged by the imperial functionaries themselves.

Quite relevant is the methodological approach taken by Rothbard (2002) who, following on from von Mises, decried the excessive focus of modern positivist monetary historians such as Friedman and Schwartz (1963) on quantitative and econometric analysis, to the neglect of the political economy of the situation, and especially where they eschewed any analysis of the motives of decision makers, who stood to benefit and who stood to lose, from actual decisions made.[4] For Rothbard, the State is controlled by a ruling political oligarchy, whose motives are fundamentally economic and financial, which must be elucidated if a correct history is to be written. Such an approach naturally comes close to the frowned upon and often criticized 'conspiracy theories of history.' Rothgard's approach leads him to a debatable interpretation of the destruction of the early Banks of United States,[5] or the role of Wall Street bankers led by the Morgans and Rockefellers in influencing US Government policy on silver coinage. Nevertheless, this author also feels that motives of decision makers cannot be ignored by economic theory, even if *actual historical outcomes* are not *what decision-makers may have planned, rationalized or expected*.

Given the pervasive influence of money combined with other essential inputs such as capital, labor and technology, the broad economic impact of particular colonial currency systems is virtually impossible to quantify or even at times identify, unlike the effects of other economic policies, such as trade protectionism, whose effects are quickly visible and differentiated. Hence, any attempt to draw up a comprehensive net balance of benefits

and costs of colonial currency changes, as Davis and Huttenback (1986) attempted for British imperialism in general, would be a challenge, if not impossible. A case in point is the complex example of the absorption of silver and inflationary money supply in India and the Straits Settlement discussed in Chapters 4 and 5 of this book, in the period 1871 to 1893 when silver was being demonetized in metropolitan countries (chapter 2).

Some pointers are, however, given by the responses of commercial interests in colonies, both British and local, to the likely direction of the economic impacts of currency changes being proposed by the British authorities. Often, these interests were opposed, with the only caveat being that the 'local voices' were rarely heard, read or given any credibility, in the official accounts.

The 1950s academic debate about the economic consequences of the currency board system faced similar difficulties. This long historical study spanning several centuries has an interesting result that the 1950s theoretical debates about the motivations of the imperial authorities in creating elements of the currency board system, however intuitively rational, are shown to have been historically irrelevant, or even contrary to reality, when the original decisions were being made (chapter 8).

Another weakness of many previous analyses has been the limited time period to which they restricted themselves – understandable because of the practical need to complete their assignments, whether PhDs or research projects with limited funding. Thus the informative study by Gerold Krozewski (*Money and the End of Empire*),[6] in covering the narrow period 1947 to 1958, while accurately recording the short-term behavior of the imperial actors, draws a number of incorrect overall conclusions simply because of a lack of awareness of internal imperial dynamics between the Colonial Office, the Crown Agents, Treasury and Bank of England, in the decades preceding that narrow period of study. This study has shown that even British Colonial Office civil servants seemed to have no idea of the real imperial thinking when the principles of the currency board were being established in India, the Straits and West Africa, and usually relied on the official reports of committees, which simply gave the rationalized accounts that the decision-makers wanted, which historians have also previously taken at face value.

Similar comments may be made about the studies by Milton Friedman (1990) and Marc Flandreau (1996). Not enough attention is paid in their quantitative analysis of the critical role all metropolitan countries expected colonies to play, without which their plans to acquire gold standards would have been far more costly, or even jeopardized. The errors or weaknesses of these studies emphasize the critical importance of understanding fully the overall long-term historical context, before finely focused quantitative research is undertaken.

In the literature on imperialism, the debate continues on the relative roles of the imperial power (British Government), parliament, various imperial

arms of government (such as Colonial Office and the Treasury), functionaries in the colonies, and private commercial interests such as the Bank of England or the 'City', and metropolitan interests in the colonies. What this book shows is that there has been no 'unified imperial mind' creating colonial currency systems. Instead, the imperial authorities embarked on a long series of decisions, made with particular imperial objectives at particular points in time. This built up in the long term to the colonial currency systems, and culminated in the currency board. At different times, the critical influences, to varying degrees, were: the 'City' interests, the Bank of England, other commercial banks in London, the British Government itself, and British investors abroad with different groups having a greater or lesser role at different times. This book may also lead to a refinement of the questions that Robert Johnson (2003 p. xi) poses about British imperialism's role in globalization and its inherent nature.

Useful for this study has been the frequency with which colonial officials in London and the colonies, and not just the colonized people, disagreed with the actual decision-making London authorities on colonial currency policy. These disagreements were amply recorded in the official correspondence. With the final decisions often being made at the instigation of the Treasury and the Bank of England, which itself had unseen financial interests, such internal conflicts fleshed out what would otherwise be the nebulous nature of 'imperialism'. It is essential that studies of imperialism differentiate between imperial functionaries – whether in London or the colonies – and those making the ultimate decisions, usually in London.

There is much evidence to show that imperial functionaries, especially lower down, were far from being mere obedient cogs in some imperialist system. This was very clear in the responses of Government of India British functionaries to London's decisions, at the turn of the century. For some, though, their roles also changed over time. In the 1930s, imperial Colonial Office administrators such as Sir Gerard Clauson and Sir Sidney Caine explicitly acknowledged academic criticisms of the anti-developmental currency board system. Nevertheless, by the 1940s and 1950s they gave in to imperial priorities and actively opposed reform, because of the likely negative impact on imperial interests. They wrote academic replies and fostered opposing academic studies. Over the centuries, there were many prominent civil servants involved in colonial currency policy, possibly receiving imperial honors for their contributions.[7] This would be an interesting area of research.

The evidence also suggests that the 'ending' of imperialism must not be seen as that of a unified imperial system, with its end delineated by political independence. The evidence indicates the imperial authorities readily granted political independence while continuing monetary imperialism, as in Ghana and Malaya.

Many studies of colonial currency systems have had the weakness that each colony has been studied in geographical isolation. This study has the

unique advantage that all the colonial currency systems examined here are analyzed in relationship to the role they played in the rise and fall of sterling as a world currency. For obvious reasons, all colonies could not be examined. Rather, the book has focused on colonies important to Britain and the currency policy changes, such as early white settler colonies, the West Indies, the Straits Settlements, India, West and East Africa, and imperial decision-making in London. Regretfully, the fascinating experiences of Ceylon and Mauritius could not be included either, although the internal imperial conflicts over their use of the British Indian rupee add considerably to the fascinating debate about imperial adherence to the principle of currency areas and the economic impact of their rupturing.

This study tries to counter one of the methodological criticisms by Warren (1980), which is that radical criticisms of imperialism invariably compare it to some unrealistic utopia, rather than what was possible in primitive colonies, which lacked the basic conditions for economic growth and development. The chapter on India and the Straits is therefore extremely useful in that they not only had a vibrant British colonial capitalist class, but also a body of dynamic indigenous entrepreneurs – all stifled by British policy. The argument of the existence of practical alternatives to colonial trajectories is further enhanced by the addition of the new chapter on the contrasting experiences of the white settler colonies from the earliest colonial times to the twentieth century. Their active and innovative use of central banks to regulate the banking sector and foster economic development, led to them breaking away from sterling decades earlier than the colonies proper. Their currency and monetary experiences and their resulting superior paths of economic development illustrate clearly and definitively 'what might have been' for colonies had Britain allowed them the same leeway, as indicated by Accominotti et al (2009), for the period they studied.

Helleiner (2003) had set out to provide a history of 'territorially homogenous and exclusive national currencies' and concluded that his study was on 'the history of territoriality, national markets, macroeconomic policy, and state and nation building.... [and] money not just as an economic phenomenon but also as a geographical, political and sociocultural one'. However, he does not have sustained and integrated historical analysis.[8] This book provides precisely that historical evidence to reinforce many of Helleiner's theoretically correct conclusions, while throwing much more light on the monetary aspects of imperialism and colonialism rarely discussed in the standard histories.

Theories of imperialism and colonial underdevelopment

In neoclassical economics literature, modern money is seen as generally progressive for economic development. Not only does it imply economic advantage to all parties in making the transition from a primitive barter economy

to a modern monetized economy (Jevons: 1910), but internationally accepted money is seen to bring additional advantages: the broadening of markets and trade, specialization, economies of scale, international division of labor.

Within this framework there is little room to discuss the kinds of conflict that have prevailed throughout the evolution of British colonial currency systems. As Barratt Brown observed (1974: 17, 25), imperialism and protectionism would be seen as 'unfortunate but temporary deviations from the true beliefs of Adam Smith.' It is difficult to integrate mainstream monetary theory with the policy conflicts between the imperial power and its colonies. On the other hand, such conflicts and ideas of confrontation and exploitation, direct or indirect, are central to theories of imperialism, dependency and colonial underdevelopment.

Money and imperialism

Given that the authority of the state has had direct impact on 'currency' and 'money' alongside that of private banks, any political economy of colonial currency and money inevitably must bring out the exercise of power and authority by the imperial state. This book therefore provides a unique monetary perspective on the phenomenon of British imperialism (and imperialism in general), which continues to be the focus of much debate amongst historians and economists.

This book does not seek to answer 'big picture' questions: 'Was imperialism good or bad for the colonized?', or 'Was it the highest stage of capitalism?', or 'When did imperialism start and when did it end?', or 'Was imperialism that of free trade or investment capital?' Instead, this book has tried to explain comprehensively, backed by solid archival evidence, the nature and motives of decision-making by the imperial authorities on the precise kind of 'money' that they allowed to circulate in the colonies they controlled. Their policies naturally changed over the hundreds of years that Britain exercised its absolute authority, and hence, 'monetary imperialism' also necessarily changed in nature and impact.

The book should enhance the complex ongoing debate on the nature of imperialism between Cain and Hopkins (1980, 1986, 1987, 1993), Green (1988), Robert Johnson (2003) and others, about British imperialism and 'gentlemanly capitalism', the divide between the interests of producers and rentiers in Britain, the role and interests of the British state, and the changing role of the City. The evidence indicates that some of the mechanisms of 'British monetary imperialism' may even have continued after political independence had been readily granted to some colonies, and these mechanisms remained important to the international role of sterling after World War II. The contents of this book would suggest that the works of Lawrence James (1994), Niall Ferguson (2002, 2003), and Philippa Levine (2007) could do with major revisions to include the currency and monetary aspects of the rise and fall of British imperialism.

The term 'imperialism' is not used in the oft-quoted Marxist–Leninist sense of a particular stage in the evolution of capitalism, but O'Connor's definition as the *'formal or informal control over local economic resources in a manner advantageous to the metropolitan economic power, and at the expense of the local economy';*[9] Barratt Brown's (1974: 22) view of it as the historical processes spanning the last four hundred years of western empires; the view of Griffin and Gurley (1985) as the *'domination by one country or group of people over others, in ways that benefit the former usually at the expense of the latter';* Roxborough's (1969: 69) exposition of the dependency paradigm; and John Willoughby's (1986: 7) interpretation as the *'attempted practices of domination over one territory or nation by the state and/or ruling elite which represents another territory or nation'.* Of great relevance is Willoughby's argument that any theory of imperialism has to[10] *'explain how the expansion of capital organizes global economic life and thereby contributes to imperial oppression and conflict…[and it] must, above all, identify and account for mechanisms of territorial and/or national subordination'.* Also relevant is Willoughby's interpretation of Roemer[11] that the *'key to determining whether or not an economic process…is exploitative depends on a conceptualisation of less coercive social relations (or property distributions) which allows the particular practice (or result) to be eliminated'* as has been done in this study through chapter 9.

In the context of our study, the above discussion gives rise to the following questions: Was Britain, in its colonial currency policies, following what it considered to be optimal for itself? Were colonial decision-makers aware that there were better policies available than the ones they were enforcing on the colonies? Were they aware of the disadvantages for the colonies of the policies being followed?

The two opposed views

We have seen that Mars (1948) has argued that the currency board system had several elements which tended to cause underdevelopment: much needed colonial savings, while desperately needed for colonial development, were needlessly exported to London; there were balance of payments constraints on the supply of currency, imparting a deflationary bias for domestically produced and consumed goods and services; and the system did not allow monetary management of the economy to facilitate development. Other writers, such as Nabudere (1982) and Cookey (1979: 26–28) associated these negative aspects with some notion of an 'imperialist' exploitation of colonies, in the interests of the British Government and economy, but without any strong evidence.

The proponents of the paradigm that imperialism resulted in colonial underdevelopment[12] argue that: the commanding heights of the colonial economy became dominated by expatriate capitals who had preferential access to colonial resources, which were denied to indigenous groups. The colonies were thereby integrated into the imperial economy in a subordinate manner: where

industry had existed, an effective deindustrialization took place; the production and consumption patterns of the colonial economy were restructured and geared for exports of mainly primary products to, and imports from, the metropolitan economy; wages were artificially kept low in order to bolster profits; and far from capital freely entering the colonies, the pattern was that, on balance, capital was extracted from them. All this not only kept low the domestic absorption of exportable products but also implied the almost complete neglect of domestic consumption needs and welfare services such as education and health, also essential for economic growth.

Opponents of the imperialism paradigms, such as Warren (1980: 9,154), argued that 'direct colonialism, far from having retarded or distorted indigenous capitalist development that might otherwise have occurred, acted as a powerful engine of progressive social change, advancing capitalist development far more rapidly than was conceivable in any other way'. Warren argued that there were no real market causes of underdevelopment, no conscious acts by a state actively creating underdevelopment while the 'backwash effects' of colonialism actually represented the 'uneven development of capitalism'.

Fieldhouse (1983: 104–05) similarly deprecated the view that colonialism prevented the use of modern techniques in colonies: he argued that colonialism simply resulted in colonies being integrated into the world economy 'using whatever techniques of economic control happened to be in vogue at the time'.[13] He also thought that colonial lack of development was symptomatic of *any* region's uneven development under capitalism, whether in the metropole or in the colony: 'formal colonies were in much the same position as any other less developed society, even if politically independent'.

Warren (1980: 126–27) accused Marxists of illegitimately condemning imperial decision-making: even if undemocratic, it met with genuine social acceptance. He accused Marxists of also unfairly contrasting this with 'visions of alternative, indigenously controlled state policies' which all unrealistically assumed that 'effective nation–states would or could have arisen, and would or could have formulated modernizing aims, without colonialism'. Warren observed that there would be substance in the Marxist view of imperialism and underdevelopment if it could be shown that any blockage of development turned out to be of long duration.[14] This book provides the historical evidence to negate the views of Warren and Fieldhouse.

The thesis that colonial currencies *per se* played a role in colonial underdevelopment has many plausible critics. Nelson (1987) denied that imperial currency policy was harmful to colonies, including India. Fieldhouse (1983: 64) argued that the deflationary aspects of colonial monetary systems were visible largely in hindsight and were more than counterbalanced by the monetary achievements. In his view, British colonial monetary policy ensured 'stable and, until 1939, fully convertible currencies in territories which had not previously possessed modern currencies, whose economies

were too small and weak to sustain international confidence in an autonomous currency, and whose governments, whether independent or colonial, lacked the sophistication to manage currency matters efficiently. Stability, convertibility, and freedom to transfer assets encouraged overseas investors and at the same time ensured that the colonial economies remained competitive as part of an international market economy'. Fieldhouse (1983: 60,77) also echoed a previous argument: the primary function of imperial currency and monetary policy was to 'facilitate economic relations between metropolis and colony' and to 'integrate it into the imperial economy'.

According to these views, colonial currency systems were part of a process of *progressive* colonial evolution, leading to an open economy where[15] 'individuals, whether expatriate or indigenous, were left to pursue their own economic goals', in the end transforming backward into modern societies. Tony Smith (1981: 16) argued more generally, the century 1815–1914 was a period in which 'British policy towards the preindustrial world came to be characterized by the practice of concluding non-discriminatory commercial agreements... [according to the belief that] comparative advantage would work to create a better-integrated, richer and more harmonious world'.

The historical evidence

This study has shown that Britain enforced a number of colonial currency policies which were known by Britain to be less than optimal. Imperial and colonial authorities knew they were disadvantageous to the colonies in unnecessarily transferring resources from colonies and imposing sub-optimal colonial currency systems not conducive to colonial trade: the removal of gold standards and currencies, and other international currencies from colonies; the demonetization of pre-colonial currencies and colonial savings in the form of bullion; the enforcement of silver on colonies in return for gold and commodities, especially after its demonetization by metropolitan countries, while Britain herself remained on the gold standard; the imposition of sterling tokens rather than full sterling; the replacement of even the sterling tokens by distinct colonial silver currencies whose circulations became localized; the export of currency reserves to London; the enforced holding of low interest British Government securities; the holding of excessively liquid reserves; the general export of colonial government savings and other cash reserves to London; and opposition to the establishment of central monetary authorities and other developmental financial institutions in colonies.

Nearly always, the imperial authorities were fully aware that there were better policies available than the ones they were enforcing on the colonies. Contrary to Fieldhouse's view, in colonies, Britain did not apply the same techniques of monetary management used in Britain itself. While Warren argued that colonial policies, even though undemocratic, met with genuine social acceptance, the reality was that most economic interests in colonies, both metropolitan and colonized people, were in opposition to imperial

policies. Also opposed were colonial governments and imperial functionaries in London, who were vested with the responsibility of safeguarding colonial interests. Colonial currency systems were clearly 'imperialist', in the many ways defined above, with clear state-created mechanisms that tended to suppress colonial development and fostered underdevelopment.

The colonial currency system was also symptomatic of the dependency relationship between the colony and the metropolitan power. While the currency board system presented the facade of a separate state, requiring separate foreign reserves to maintain confidence and convertibility of its separate currency, the reality was that the imperial state had total control over the colonial currency, although they publicly often denied the exercise of this power. At the same time, the authorities rejected the establishment of any independent colonial monetary authority, private or public, which might weaken their discretionary control over colonial currency and reserves.[16] While imperial authorities were unwilling to place significant controls on metropolitan capital flows, this reluctance did not apply to colonies where both colonial capitalists, especially indigenous, and colonial governments, found their economic freedom severely constrained.

While Britain's currency system contained a fiduciary portion, which was backed by British Government Securities and facilitated the expansion of British Government expenditure, for the colonies such backing, which might have similarly facilitated colonial government expenditure and development, was not allowed. Instead, the colonial currency system was used to facilitate the imperial state's borrowings and expenditure. The colonial currency system was therefore another expression of the emasculation of the colonial state, which could not act independently to facilitate independent colonial development.

Imperial decision makers were opposed to colonial governments being given the power to create money, especially paper currency, except under the most rigid constraints of reserve requirements. By contrast, the authorities were not averse to similar powers being granted to the Bank of England in Britain, and private banks in colonies under much more lenient regulations, even though the credit of the colony ought to have been stronger than that of the private banks. The Bank of England was a private bank until after World War II (WWII). Significantly, a similar phenomenon existed in the early United States, where federal law refused state legislatures, some of which were democratically controlled, the right to issue money; although private banks were granted that freedom (Hurst 1973). Hammond (1957) has shown that, even when private banks, such as the early Bank of the United States, began to regulate the other private banks in the manner of a Reserve Bank, other banking interests eventually ensured the demise of the regulating bank. Also significant was that the largest proportion of the money supply (i.e. demand deposits) continued to be created by private banks with little regulation from the State. It is an astonishing phenomenon worthy of much more search that

money issued by democratically controlled central or state banks in both colonial and independent capitalist economies was frowned upon by the British imperial state, while that issued by private banks was not.

One reflection of the dependency relationship was the asymmetry, which we have previously described, between the British currency system and the colonial currency system. While this would be expected of any exchange standard system, in colonial currency systems the automatic convertibility of metropolitan money into colonial money (and goods and services) was not matched by the opposite convertibility, except at a discount and through the London Money market. Colonial holders of currency were thereby encouraged to become dependent on metropolitan channels of finance and trade.

With the currency board reality that, ultimately, colonial currency could only be increased by those who tendered sterling, there was also the logical consequence that the mode of production in colonies had to be more attuned to the possessors of sterling rather than the possessors of indigenous resources in the colonies. Hicks (1969: 44,51) was thus incorrect in arguing that the links between metropole and colonies did not imply an unequal relationship.[17] The colonial currency system could be regarded as a single specific mechanism that helps to explain the international division of labor between the developing and the developed countries, as required by Barratt Brown (1974: 28) of any acceptable theory of imperialism.

While Britain formally adopted the gold standard in 1816, for a century afterwards sterling and the London money market continued to go through severe gold reserve crises; although the Bank at most times had ample supplies of silver, which she could convert into gold, either through the Latin Union (when it was still bimetallic), or by forcing it on her colonies.

While this book provides evidence of the 'imperialist' currency policies of Britain towards her colonies, it needs to be emphasized that the nature and the beneficiaries of these policies kept changing. With the enforcement of silver on colonies and extraction of gold, the beneficiaries were probably the silver merchants in London. British manufacturing exporters then benefitted, as colonial economies were bound tighter to Britain, and colonial markets denied to competing imperial powers by currency changes in colonies. Imperial policies to bolster sterling reserves were to the benefit of City interests and British investors investing abroad. Imperial policies to force colonies to hold British Government securities, and liquid Treasury Bills, were to the advantage of the British Government, which as a result obtained low interest-guaranteed loans from colonial resources totally in their control.

New research areas indicated

A somewhat unorthodox study like this opens up many research areas on the roles that currency and money play in the economy. There are implications of course for the old monetary questions. Does money and monetary

policy matter for economic growth and development? Should the government control or have any influence on money supply? Should the control of inflation rigidly drive monetary policy? Does it matter where exactly and how the money supply is allowed to increase? Does the sectorial allocation of the money supply and credit matter? How much external reserves should a country hold, and in what form and where? What is the impact of currency areas and monetary union? Why do so many countries apply foreign exchange controls over citizens whose holdings of money face limited convertibility into foreign exchange while foreigners and foreign investors are not so restricted? Should gold reserves be once again used to discipline monetary creation by irresponsible governments?

This book, however, indicates the need for new research areas.

Other important colonies to be examined

This book has examined India, the Straits Settlements, West and East Africa in some depth, largely based on the limited number of files that this author was able to read in the limited time he had at the Public Records Office (Kew). They deserve deeper and more comprehensive research. There has been insufficient attention paid to colonies such as Malaya and Hong Kong – extremely crucial to sterling during and after WWII, nor to middle-sized colonies, such as Ceylon, Mauritius, Hong Kong, and many others in the far-flung British Empire. It would be fascinating to research the extent to which all these different colonies fit into the patterns presented in this book, and whether there are situations for which the analysis presented here is not adequate or may even be incorrect. Researchers are likely to face the problem of destruction of sensitive and confidential Colonial Office and Treasury files because of the possibility of negative fallout with still important former colonies, despite the thirty-year rule of the Public Records Office.[18]

Monetary imperialism in areas of informal control

Given that monetary imperialism does not necessarily coincide with geographical boundaries, or dividing lines of political independents, there should be new areas of research on countries which were not formal colonies but still very much under some imperial control or influence, with metropolitan money being one of the vehicles for market control. Some of these areas, such as Egypt and Iraq, were important enough economically (and hence financially) for Britain to wage wars at great cost. Historically, the London Money market and City interests have never been too far away when it came to British and other imperial wars.

The role of the Bank of England and Crown Agents, and other dominant metropolitan banks

Throughout this book about colonial currency systems, covering more than a century up to the 1960s, an elephant has been walking in and out of the

room – the Bank of England. Why and how exactly did this purely private financial institution – which sat at the top of the London money market it controlled in the interest of its private shareholders, and the British Treasury where it could – exercise its incredibly powerful influence on the currency and monetary matters in the colonies – which ought to have been the sole preserve of the British Government, the legal trustees for the colonies?

What exactly has been the role of Joint Stock Banks, private banks, and bill brokers in the City who strongly interacted with the Bank, with the British Exchequer, Secretary of State for India, in also influencing colonial currency policies? It has been amply documented that several were large preferential holders of colonial sterling reserves, and worked closely with the Secretary of State for India and Colonies, who threated them preferentially.

What exactly was the role of the Crown Agents over more than a century, supposedly acting in the interests of the colonies but subservient to the Secretary of State for Colonies? How exactly were its conflicts with the British Treasury and Bank of England resolved? There are hints that appointments of the appropriate Crown Agents may have been manipulated at times to suit the imperial agenda.

These are all areas where substantial research could put together a more accurate picture of the City in relation to the colonies, than has been patchily indicated in this book.

Institutional records not examined in depth

Also not examined systematically as a genuine historian would have and ought to have, are the files of the Crown Agents, British Treasury, and the Bank of England; these would be treasure troves to a solid researcher. So also would the relevant records of the London School of Economics, the Nuffield College and the private London commercial banks that appear in this history of colonial currency.

Local collaborators in monetary imperialism

To what extent was monetary imperialism able to continue exploiting colonies because of the collaboration of local commercial interests? The prime example is that despite the pervasive awareness among Indian commercial interests and intellectuals about the deficiencies in the Indian currency and monetary system by 1914, despite the obvious horrendous costs because the Government of India did not use the available resources to alleviate famine or invest in essential infrastructure, Britain still succeeded in maintaining the system until after WWII.

This monetary conundrum is on par with the more general and much debated puzzle that Britain could rule a country of hundreds of millions of people for more than two centuries, using a mere 50,000 British imperial civil servants. As with the usual political answers given to the latter question, is there a corresponding story that the exploitative imperial monetary edifice

constructed in India, required for its survival a subservient Indian collaborating class of money lenders and bankers who shared in the imperial spoils and would also have opposed any reform proposed by Indian nationalists? Similar questions may also be asked about the more commercially developed colonies with indigenous entrepreneurial classes such as Singapore, Malaya and Hong Kong.

Imperialism and academia

One of the strong themes emerging from this book, and a possibly fruitful area of research, is the role of academia in the broad functioning of imperialism. While inadequate understanding may have been the primary reason for less than accurate analyses of colonial currency policies by metropolitan economists, they may also have been colored by patriotism – or even self-interest of the metropolitan academics engaged in the exercise. Such problems must also permeate broader economic analysis of imperialism.

Norman Leys (1941) early on pointed out that[19] 'in the many books that have recently been published that deal with East Africa, some in seats of learning, by men and women endowed with chairs and out of trust funds, only the fringe of the truth is lifted. It is to such men of position and influence, who often admit in private what their readers could never suspect, that the public rightly looks for the truth. Their silence is the reason why the wrongs are never righted'. Rothbard (2002) also criticized the nefarious roles played by academia (who Rothbard refers to as 'court intellectuals') in politically justifying decisions of the oligarchy to the public, while being suitably rewarded by the state.

Throughout this book covering two centuries of imperial currency policy, prominent economists put in an appearance, without their self-interest being clarified or the extent to which their views were colored by their nationalism, consciously or unconsciously. Houghton pointed out (1991: 173) how in the English currency/banking debate, the theoretical analysis of the protagonists such as Ricardo and his opponents, often neglected to mention their own pecuniary self-interest, while challenging Barings' and Goldsmith's dominance of British government loans at the time. Jevons, at the end of the nineteenth century, defended Britain's position on bimetallism from a purely nationalist perspective.

In the first decade of the twentieth century, preeminent economist John Maynard Keynes, wrote on the Indian currency and monetary system, without pointing out the opposed interests of Britain and India, and that the latter's economic development was being retarded by imperial policy. Keynes also occasionally advised on the currency board system when it was being created and when it came under stress during WWII. He defended the role of sterling in the international financial system, fully aware of the direct usefulness of colonial currency reserves to Britain and the costs to colonies. Keynes was known to be a currency speculator, acting often on behalf of

his family and friends (including some from the British Treasury), as well as wealthy investors and the King's College Chest Fund (Wasik 2013). He made and lost fortunes. With Keynes leading the British negotiations with the US at Bretton Woods, Wiseley (1977: 139) notes that 'he also had the support of the staunchly imperial Beaverbrook press. Skilled in the arts and trickery of public debate Keynes could be relied upon to defend British interests ardently'.

Imperial policies on banking

One of the interesting rejoinders to criticisms of the currency board's inability to increase the supply of money except through increase in sterling holdings was that nothing prevented colonial banks from doing so. While the debates discussed in Chapter 8 did relate to this response, interesting questions still remain about different imperial responses to private commercial banks in colonies, both expatriate and indigenous. The metropolitan banks themselves had very different policies in their different branches in the various parts of the colonial empire in Africa and Asia, in the dominions and in Britain. There would seem to be ample scope to bring the different threads in the colonial and dominion empire together in one study, as this book has tried to do for currency systems, though largely focused on colonies.

Imperial policy formulation through manipulation of official inquiries

One of the extraordinary imperial processes revealed chapter by chapter, has been the numerous official 'committees of inquiry' established supposedly to investigate currency and monetary problems in colonies, and recommend solutions. This book has made clear that they by and large had preconceived objectives and a stacked membership, with 'pesky' natives usually excluded. The proceedings, moreover, invariably indicated that the committees disregarded evidence they did not like. In the odd cases where the final reports did not meet with the imperial authorities' approval (sometimes because all committee members were not fully co-operative), the report was shelved, never to see the light of day. This is of course not a phenomenon restricted to imperialist manipulation of colonial policies through a facade of democratic participation. Such examples abound universally where 'democracy' is manipulated, but are interesting nevertheless.

Monetary imperialism by other powers

There has been scattered evidence throughout this book that other imperial powers – such as, the Dutch, French, German and American (described briefly in Chapter 6) – also established colonial currency systems similar to that of the British.

Thus during the international monetary conferences at the end of the nineteenth century, Britain was well aware that other imperial powers – France,

Holland, the United States and Japan, whatever their disagreements expressed at the conferences, followed similar policies in their colonies, as well as informal areas of control such as Egypt, Indo-China, East Indies, the Philippines, Manchuria and China.[20] After 1914 Britain also enforced silver currencies and essentially currency board systems in Iraq.[21]

There would seem to be ample scope for more research into the similarities and contrasts of a phenomenon that might not just be applicable to British imperialism.

Other world currencies

This book, on British imperialism's use of colonial sterling reserves in London to facilitate the rise of sterling and its massive investments abroad and defend it during its decline, may have lessons for the analysis of similar trends, with the rise and decline of the US dollar and dollar reserves held in New York by non-American entities, and the rise of US investment internationally. There may also be similar lessons for the rise of the Chinese renminbi as a reserve or world currency in the global economy where Chinese investment is currently making massive inroads usually with third currencies, although eventually they may be made in renminbi.

The recent publication edited by Alan Wheatley (2013) *The Power of Currencies and Currencies of Power*[22] raises many questions about the future of world currencies, which parallel those relating to sterling's rise, and its decline after WWII when it gave way to the US dollar. The individual chapters in Wheatley cover the origins and use of currency power, pretenders to the dollar crown (the Euro and the Chinese renminbi), the dollar and US power, financial blockades and reserve currencies as instruments of coercion.

Delphine Strauss, on reviewing Wheatley, summarizes and focuses on many issues that resonate with this book on British sterling: How did the US use its 'exorbitant' privilege (such as seigniorage benefits, power to print money and spend it on US military expenditure) over foreigners' dollar reserves to project its power?; What were the costs to the US domestic economy of foreign exchange rates being held down relative to the dollar?; Did this result in significant 'moral hazard' for the US and disincentive to have better domestic fiscal and monetary policies?; How beneficial in the long run are sanctions on foreign countries' reserves?; How vulnerable do large holders of US dollars (such as China) become when they hold too much (shades of Malaya and sterling after WWII)?; Will China bid for a similar role for the renminbi, despite the loss of control it might imply over its exchange rate policy, when strong arguments might be made that its deliberate undervaluation of the renminbi to favour exporters has subsidized global consumers and foreign investors at the expense of Chinese consumers?

Marxist theories of money

One might have expected colonial currencies to feature in Marxist discussions of imperialism, a phenomenon centrally concerned with unequal relations between the imperial state and the dominated countries. But in Marxist theory also, with some exceptions, currency is seen merely as a facilitator of exchange, a *numeraire* in a free market.[23] It is not expected to be an instigator, or even an expression of unequal relations, which are the essence of imperialism. This neutrality of currency and money is even odder given that in Marxist theories credit money and financial systems are seen to have vital roles in the concentration and centralization of capital, and in instigating crises of which the periodic global recessions and Kondratiev super cycles of boom and bust are prime symptoms, still continuing with cataclysms such as the Global Financial Crisis.

Anthropologist B. Bradby (1984) had criticized Marxist theory by arguing that money and circulation were class processes which could not be reduced to mere market exchange between equals, as done by both Marx and Marxists, and liberal theorists, such as Simmel (1978) and Frankel (1977). The Marxist failure to incorporate the role of the State was seen by Bradby to be a fundamental error since money in capitalism was to a large degree State money, as recognized by Keynes[24] although he also thought that money was originally commodity money.[25] Bradby argued that the commodity exchange theory of money was not reconcilable with the State theory of money or with historical reality.

Bagchi also pointed out (1982: 18) that the a-historical treatment of money by neoclassical economics had weaknesses when applied to the Third World. He argued that monetization and commercialization, far from being an automatic process, had 'been forced on many third world countries by using non-market coercion'; and this commercialization had 'often resulted in an economic structure which [had] acted as a brake on economic development ... [and] generally led to the removal of surpluses from Third World countries'. This criticism may also apply to developed countries, if the historical perspective is long enough, especially the transition from non-market to market economies.

Integrating econometrics and political economy

This contents of this book suggests that the last word has not been written on many monetary controversies and phenomena, such as bimetallism and the Gold Standard. Unfortunately, economic theory has split in many directions, with the 'positivist and quantitative' approach pretty well holding supreme in economics academia, while 'historical political economy' seems to be a poor cousin, with never the twain meeting. Thus, Milton Friedman (1991) on his allegation of the 'American crime of 1873' in the bimetallism debates, depends totally on quantitative analysis and a limited time frame,

with only a passing reference to motives of the key players; whereas others have depended completely on political economy. Flandreau (1996) argues similarly on the alleged 'French crime of 1873'.

There seems to be room for an international conference, which would bring together the quantitative economic historians with the historical political economists, to explore possible common ground and possibilities for mutual enrichment. Kuhn (1962), a physicist, wrote his ground-breaking work *The structure of scientific revolutions* after his deep historical analysis of physicists and their theories. Kuhn clearly revealed the limitations of 'normal science' and the need for 'paradigm shifts' – or 'thinking outside the box' in common parlance. The field of monetary economics could provide such a meeting ground for hitherto divergent schools of research and theory.

Appendix

Table A.1 Coins: gross and fine weights, fineness, and sterling value

Coin	Date	Gr.Wt.	Fn.Wt.	Fineness	Stg.Value#
Spanish dollar	1497–1728	423.9	394.6	931.0	
	1728–1772	417.6	382.8	916.6	4s. 4.4d.
	1772–1847	417.6	377.0	903.0	4s. 3.6d.
Spanish doubloon	1537–1772	417.6	382.8	916.6	67s. 9.1d.
	1772–1786	417.6	376.2	901.0	66s. 7.0d.
	1786–1848	417.6	365.4	875.0	64s. 8.1d.
French Napoleon (20 fr.)	(1803)	99.6	89.6	900.0	15s.10.3d.
Fr. 1–franc	1803–1866	77.1	69.4	900.0	9.5d.
	1866–1892	77.1	64.4	835.0	8.8d
Fr. 5–franc	(1795)	385.8	347.2	900.0	3s.11.5d.
British shilling	1601–1816	92.9	85.9	925.0	
	1816–	87.3	80.7	925.0	
Br. sovereign	1816–1892	123.3	113.0	916.6	
US eagles	1792–1834	270.0	247.5	916.6	43s. 9.7d.
	1837–	258.0	232.2	900.0	41s. 1.2d.
US dollar	1792–1837	416.0	370.0	889.6	4s. 2.7d.
	1837–	412.5	371.3	900.0	4s. 2.8d.
Calcutta mohur	1769–1818	190.8	190.1	996.4	33s. 7.8d.
	1818–1833	204.7	187.6	916.6	33s. 2.5d.
Bombay mohur	–1774	178.3	170.0	953.1	30s. 1.1d.
	1800–1833	179.0	164.7	920.0	29s. 1.8d.
	1818–1892	180.0	165.0	916.6	29s. 2.4d.
Sicca rupee	1766–1818	179.6	176.0	980.0	2s. 0.1d.
	1818–1836	192.0	176.0	916.6	2s. 0.1d
Bombay rupee	–1780	178.3	176.2	988.0	2s. 0.1d.
	1800–1824	179.0	164.7	920.0	1s.10.5d.
	1824–1835	180.0	165.0	916.6	1s.10.6d.
Madras rupee	1788–1818	176.4	166.5	943.7	1s.10.8d.
	1818–1835	180.0	165.0	916.6	1s.10.6d.
Govt. rupee	1835–1862	180.0	165.0	916.6	1s.10.6d.
	1862–1892	180.0	165.0	916.6	1s.10.6d.

Source: Chalmers (1893), Appendix A (except for last column which gives values estimated by the proportional fine gold content, or for silver coins by converting into gold through the French bimetallic ratio of 15.5:1).

Table A.2a World Production (£m) and gold–silver ratios

Period	silver((£m)	gold((£m)	Gold:Silver ratio
1801–10	8.1	2.5	15.61
1811–20	4.9	1.6	15.51
1821–30	4.1	2.0	15.80
1831–40	5.3	2.8	15.75
1841–50	6.9	7.6	15.83
1851–55	8.0	27.8	15.41
1856–60	8.2	28.1	15.30
1861–65	10.0	25.8	15.40
1866–70	12.0	27.2	15.55
1871–75	17.2	24.2	15.97
1876–80	19.1	24.0	17.81
1881–85	21.4	20.8	18.63
1888			22.00

Source: *Final Report, Gold and Silver Commission*, Robey (1938), pp 22–3, 278).

Table A.2b Price of silver (per fine ounce)

1866–70	60.6
1871–75	59.1
1876–80	52.9
1881–85	50.6
1894	31.3
1904	28.6
1914	27.4
1924	33.3
1930	19.1
1931(Feb)	12.4

Sources: Memorandum by Joseph Kitchin, 25 February 1931 and 'Note on Silver' by Salter, in Public Records Office file T160/411/F3420/02.

Table A.2c World absorption of silver and gold (1493–1931) and (1920–31)

	1493–1931		1920–1931	
	Mil.ozs.	Perc. Of World	Mil. Ozs.	Perc. Of World
		Silver		
India	3,700	33%	1,000	37%
China	1,500	13%	980	36%
Rest (ind. arts)	3,000	27%	650	24%
Rest (coinage)	3,200	28%	110	4%
		Gold		
India	155	15%		25%
China and Egypt	28	3%		–
Rest (ind. arts)	325	30%		23%
Rest (coinage)	570	53%		53%

Table A.2d Metropolitan imports of gold (annual averages, 1866–85)

United States	1866–70	– £8.1 m.
	1871–75	– 8.6 m.
	1876–80	+ 2.5 m.
	1881–85	+ 4.4 m.
England	–1876	net importer
	1877–80	+ £1.4 m.
	1881–85	+ 0.5 m.
France	1851–60	+ 318 m.fr.
	1861–70	+ 191
	1871–73	– 125
	1874–78	+ 415
	1879–84	– 70
Germany	1872–70	+ 68 m marks
	1880–85	–11

Source: Memorandum by Joseph Kitchin, 25 February 1931 and 'Note on Silver' by Salter, in Public Records Office file T160/411/F3420/02.

Table A.2e Gold and silver imports into India and coinage (£ mils.)

	Net imports of		**Net coinage of**	
Years	**Silver**	**Gold**	**Silver**	**Gold**
1850–1860	61.1	21.5	70.9	.8
1860–1870	96.7	59.8	81.6	.6
1850–1870	157.8	81.3	152.5	1.4

Source: Ambedkar (1947:31,40)]; Memorandum by Joseph Kitchin, 25 February 1931 and 'Note on Silver' by Salter, in Public Records Office file T160/411/F3420/02..

Table A.2f India's stocks of silver rupees in reserves and circulation (millions of rupees)

1900	815
1908	1805
1916	2076
1924	3500
1930	3240

Table A.2g National stocks of silver at end of 1929 (£ mils.)

United Kingdom	50
United States	176
India	243

Source: Memorandum by Joseph Kitchin, 25 February 1931 and 'Note on Silver' by Salter, in Public Records Office file T160/411/F3420/02.

Table A.2h China's net imports of silver (1890–1930) (mil. fine ounces per annum)

1890–1910	.4
1911–1918	5.4
1919–1924	53.2
1925–1930	101.3

Source: Memorandum by Joseph Kitchin, 25 February 1931 and 'Note on Silver' by Salter, in Public Records Office file T160/411/F3420/02.

Table A.3a Distribution of net credit balance of Government of India: India and Britain

	(£millions)		**Percentages**	
Year	**Britain**	**India**	**Britain**	**India**
1893	2.3	10.2	19	81
1895	2.5	15.0	14	86
1897	2.8	9.2	23	77
1899	3.1	11.2	22	78
1901	4.1	8.8	32	68
1903	5.8	12.1	32	68
1905	10.3	10.6	49	51
1907	5.6	10.0	36	64
1909	8.0	10.2	44	56
1911	16.7	13.6	55	45
1913	8.4	19.5	30	70

Table A.3b Distribution of the Paper Currency Reserve of India between India and Britain

	Millions of rupees				**Percentages**		
	Active	**Total**	**Reserves**	**Securities**	**2/1**	**3/1**	**4/1**
Year	**Circulation**	**Reserves**	**In UK**	**In India**			
1893	195	264	–	80	135	–	41
1895	191	307	–	80	161	–	42
1897	188	238	–	100	126	–	53
1899	204	283	–	100	139	–	49
1901	219	299	–	100	136	–	46
1903	248	357	–	100	144	–	40
1905	285	392	–	100	138	–	35
1907	364	470	125	100	129	34	27
1909	350	455	43	100	130	12	28
1911	402	550	96	100	137	24	25
1913		690	132	100			

Table A.3c Distribution of Gold Standard Reserve between Britain and India

	Amount (£ million)			Perc. in
	In Britain	In India		In Britain
		As gold	As Silver	
1901	1.0	2.4		29
1902	3.5	2.3		60
1903	3.9	.6		87
1904	7.5	.3		96
1905	9.9	.2		98
1906	11.9	3.6	.1	77
1907	13.2	4.2	4.0	76
1908	5.1	13.0	12.0	28
1909	11.5	6.7	4.8	63
1910	16.0	2.5	2.5	86
1911	16.9	1.9	1.9	90

Table A.3d Distribution of aggregate of Net Credit Balances, Paper Currency Reserves and Gold Standard Reserves between India and Britain (£m) and %

	Amounts ((£million)			Percentage	
	Aggregate (1)	In UK (2)	Active Circulation of notes (3)	(2/3)%	(2/1)%
1901	32.2	5.1	14.6	35%	16
1903	46.2	9.7	16.5	59	21
1905	57.1	20.2	19.0	106	35
1907	68.3	27.1	24.3	111	40
1909	60.0	22.4	23.3	96	37
1911	87.7	40.0	26.8	149	46

Source: Compiled from Tables I and II, Interim Report of the Chamberlain Commission and Table 10, de Cecco (1974). The rupee:sterling conversion rate has been taken as £1=15 rupees.]

Table A.3e Deposits/cash balances of banks, and credit balance of Government of India, 1910 (£ mil)

	Deposits	Cash
Presidency Banks	21.6	7.5
Exchange Banks	16.2	2.9
Indian Joint Stock Banks	17.1	1.9
TOTAL	54.9	12.3

Source: Keynes (1913:227).

Table A.3f Credit Balance of Government of India (1910)

In Britain	12.3
In India	12.8
Total	25.1

Source: Keynes (1913:227).

Table A.4a Geographical distribution of sterling investments of the West African Currency Board (1915–57)

Year	UK	Dominions.	Eastern Territories	Others	Total
	Sterling Securities of (£000)				
1915	–	100	21	63	185
1917	946	100	12	74	1,131
1919	3,967	100	21	63	4,153
1927	11,024	1975	173	63	13,236
1929	12,143	2,148	178	197	14,664
1931	8,343	1,123	–	23	9,488
1932	8,437	873	–	126	9,436
1933	9,234	873	–	128	10,235
1934	7,750	873	–	131	8,754
1936	10,742	1,423	250	948	13,363
1938	17,878	976	250	698	19,802
1943	21,700	977	250	252	23,179
1946	34,110	576	250	476	35,412
1950	63,384	450	250	474	64,558
1953	89,700	450	–	1,100	91,250
1957	86,025	–	–	1,100	87,125
	Percentages				
1915	–	54	11	34	100
1917	84	9	1	7	100
1919	96	2	1	2	100
1921	91	2	1	6	100
1927	83	15	1	1	100
1929	83	15	1	1	100
1931	88	12	–	–	100
1932	89	9	–	1	100
1933	90	9	–	1	100
1934	88	10	–	2	100
1936	80	11	2	7	100
1938	90	5	1	3	100
1946	96	2	1	1	100
1950	98	1	–	1	100
1953	98	1	–	1	100
1957	98	–	–	2	100

Notes: 1. UK figures exclude cash deposits, and Treasury Bill holdings.
2. Eastern territories refers to India, Ceylon, Hong Kong and Straits.
3. Excluding local issues, of which there was only £1 million worth in 1957.
Source: Calculated from returns to the Crown Agents.

Table A.4b Distribution of the investments of the East African Currency Board (1921–56)

Year	UK	Dominions.	Eastern Territories	Others	Total
	Sterling Securities of (£000)				
1921	79	81	129	64	351
1926	1,225	115	167	122	1,629
1929	763	272	229	292	1,560
1931	180	251	83	219	742
1932	47	251	27	83	408
1933	47	251	27	83	408
1934	140	336	97	83	655
1936	958	294	95	96	1,453
1938	2,140	399	82	92	2,713
1941	3,604	388	–	90	4,082
1946	20,624	235	–	79	20,933
1951	35,350	140	–	25	35,514
1956	51,850	–	–	650	52,500
	Percentages				
1921	23	23	37	18	100
1926	75	7	10	7	
1929	49	18	18	19	
1931	24	34	2	11	
1932	12	62	7	20	
1933	12	62	7	20	
1934	21	51	15	18	
1936	66	20	6	7	
1938	79	15	3	3	
1941	88	20	–	2	
1946	99	1	–	–	
1951	99	–	–	–	
1956	99	–	–	1	

Notes: 1. UK figures exclude cash deposits, and Treasury Bill holdings.
2. Eastern territories refers to India, Ceylon, Hong Kong and Straits.
3. Excluding local issues, of which there was only £1 million worth in 1957.
Source: Calculated from returns to the Crown Agents.

Table A.4c Geographical Distribution of Securities in Joint Colonial Fund (1931–45)

	UK	Dominions.	Eastern Territories	Others	Total
Year	**Percentages**				**(£000)**
1931	65.0	19.7	11.9	7.6	4,412
1936	40.0	40.6	8.1	11.2	8,830
1940	48.4	36.7	–	14.8	6,021
1945	59.0	31.2	–	9.9	23,405

Table A.4d Balance sheet of the Joint Colonial Fund (£ mils)

	3/31	3/32	6/45	12/49	12/50	9/51
Deposits	–	3.2	13.1	13.7	20.6	26.2
Loans to Pub. Auth.	–	–	3.4	1.6	4.3	10.0
Treasury Bills	–	–	–	–	7.0	6.0
Investments	4.4	2.9	24.0	39.6	47.5	50.9
Advances to Colonies	3.1	0.7	0.9	7.2	5.1	3.9
TOTALS	7.5	6.9	41.4	61.8	84.4	97.0

Table A.4e Geographical distribution of investments of Fiji's sterling funds

	Percentage of Investments in Securities of					£000
Year	**UK**	**Dom.**	**Africa &WI**	**East.**	**Fiji**	**£000**
Note Guarantee Fund						
1930	20	13	36	28		411
1934	6	28	37	18		519
1937	30	24	29	13		597
1948	82	8	8	2		3251
1957	68	8	19	5	1	3600
Government Savings Bank Investments						
1930	18	18	40	16	–	193
1937	25	31	41	2	–	325
1961	66	13	17	4	–	1267
General, Surplus and Emergency Funds						
1930	19	30	37	14	–	344
1961	51	9	32	8	–	840

Table A.4f Geographical distribution of crown agents' own reserve fund for pensions, gratuities etc. (Percentages and amount) (1943)

	Percentages				Agg.(£000)
UK	**Dom.**	**Eastern territories**	**Others**	**Total**	
49	20	–	32	100	954

Note: This fund had no British Government securities and the average (weighted) rate of return was 4.6%.

Table A.5a Maturity distribution of colonial currency funds (1942)

Currency Board Or Fund	**A Cash, Deposits and Treasury Bills**	**B Securities <10 years maturity.**	**C Securities >10 years maturity.**	**TOTAL**	**A**	**B**	**C**
		(£000)				**Percentages**	
Palestine CF	2656	15020	3234	20910	13	72	15
East Africa CF	2000	7633	2102	11735	17	65	18
West Africa CF	3340	8981	9198	21519	16	42	42
Sub Total	7996	31634	14534	54164	15	58	27
	Funds managed by Crown Agents for Currency Commissioners						
Bahamas NS	6	31	115	152	4	20	76
Barbados NS	5	57	184	246	2	23	75
Bermuda NS	8	99	676	783	1	13	86
Br.Guiana NS	18	44	543	605	3	7	90
Br.Honduras NS	0	15	85	100	0	15	85
Ceylon N&CS	150	1076	3681	4907	3	22	75
Cyprus NS	1278	330	1276	2884	44	11	44
Falklands NS	30	14	11	55	55	25	20
Fiji N&C	25	187	733	945	3	20	78
Gibralter NS	19	64	366	449	4	14	82
Honk Kg. Ex.&C	4273	10730	1981	16984	25	63	12
Jamaica NS	0	143	851	994	0	14	86
Malayan N&C	2513	12980	14664	30189	8	43	49
Malta NS	3509	1000	2000	6509	54	15	31
Mauritius N&C	15	222	775	1012	1	22	77
Sarawak N&C	0	183	823	1006	0	18	82
Seychelles N&C	16	13	41	70	23	19	59
Trinidad NS	268	444	1621	2331	11	19	70
All colonies (Crown Agents)	12133	27632	30456	70221	17	39	43
Currency Boards	7996	31634	14534	54164	15	58	27
Grand Total	20129	59266	44990	124385	16	48	36

Key
CB Currency Board
NS: Note Security Fund.
N&C: Note and Coin Security Fund.
Ex.&C: Exchange and Coin Security Fund.
Source: Calculated from tables in CO852/360/16

Table A.5b Maturity distribution of colonial currency funds managed by the Crown Agents (1948)

Currency Board Or Fund	A Cash, Deposits and Treasury Bills	B Securities <10 years maturity.	C Securities >10 years maturity.	TOTAL	A	B	C
Bahamas NS	132	225	194	551	24	41	35
Barbados NS	208	106	157	471	44	23	33
Bermuda NS	157	123	611	891	18	14	69
Br.Guiana NS	774	449	472	1695	46	26	28
Br.Honduras NS	74	65	77	216	34	30	36
Ceylon N&CS							
Cyprus NS	1532	2245	1541	5318	29	42	29
Falklands NS	27	11	13	51	53	22	25
Fiji N&C	1205	532	858	2541	47	21	34
Gibralter NS	180	333	365	878	21	38	42
Honk Kg.Ex.&C	22262	19969	1288	43519	51	46	3
Jamaica NS	686	956	875	2517	27	38	35
Malayan N&C	16328	17367	18767	52465	31	33	36
Malta NS	445	8312	2068	10825	4	77	19
Mauritius N&C	675	808	778	2261	30	36	34
Sarawak N&C	23	365	430	818	3	45	53
Seychelles N&C	44	98	43	180	24	54	24
Trinidad NS	470	2221	1224	3915	12	57	31
Sub Total 1948	45222	54206	29855	129286	35	42	23
Total 1942	12133	27632	30456	70221	17	39	43
Change 1942 to 1948	273%	96%	–2%	84%	106%	8%	–47%

Key
CB Currency Board
NS: Note Security Fund.
N&C: Note and Coin Security Fund.
Ex.&C: Exchange and Coin Security Fund.
Source: Calculated from tables in CO852/360/16

Table A.5c Percentage change from 1942 to 1948

Currency Fund Managed by Crown Agents	A Cash, Deposits and Treasury Bills	B Securities <10 years maturity.	C Securities >10 years maturity.	TOTAL	A	B	C
Bahamas NS	2100	626	69	263	500	105	–54
Barbados NS	4060	86	–15	91	2100	0	–56
Bermuda NS	1863	24	–10	14	1700	8	–20
Br.Guiana NS	4200	920	–13	180	1433	271	–69
Br.Honduras NS		333	–9	116		100	–58
Ceylon N&CS							
Cyprus NS	20	580	21	84	–34	282	–34
Falklands NS	–10	–21	18	–7	–4	–12	25
Fiji N&C	4720	184	17	169	1467	5	–56
Gibralter NS	847	420	0	96	425	171	–49
Honk Kg.Ex.&C	421	86	–35	156	104	–27	–75
Jamaica NS		569	3	153		171	–59
Malayan N&C	550	34	28	74	288	–23	–27
Malta NS	–87	731	3	66	–93	413	–39
Mauritius N&C	4400	264	0	123	2900	64	–56
Sarawak N&C		99	–48	–19		150	–35
Seychelles N&C	175	654	5	157	4	184	–59
Trinidad NS	75	400	–24	68	9	200	–56
Totals	273	96	–2	84	106	8	–47

Source: Calculated from Tables A.5a and A.5b (CO852/682/3)

Table A.6a Stock maturities of West African Currency Board Investments (1938–57)

	1938	1943	1946	1950	1953	1957
Maturity 1–10 years	5101	14181	20941	47564	55600	83175
Maturity > 10 yrs.	14701	8998	14471	16994	35650	4950
Total Investments	19802	23179	35412	64558	91250	87125
Percentage < 10 yrs (%)	26%	61%	59%	74%	61%	94%
UK securities in 1–10 yrs	5000	14000	20450	47101	55000	80550
Perc. Of Total 1–10 yrs.	98	99	98	99	99	97

Source: Calculated from returns of WACB to Crown Agents

Table A.7 Colonial sterling balances (£millions)

	1945	**1946**	**1947**	**1948**	**1949**	**1950**	**1951**
Sterling reserves	447	495	510	556	583	754	967
Exp. Under C.D.& W Acts	4	3	5	6	13	13	

Source: Hazlewood (1953–4)

Table A.8 Estimation of colonial 'hard core' circulations (1945)

Territory	**A Earliest Circulation (year)**	**B 1939 Circulation (year)**	**C Latest Circulation (year)**	**D Lowest A to C (year)**	**D/B%**	**B/C%**	**D/C%**
West Africa (£m)	13.6 (1920)	11.7 (1939)	26.4 (1944)	8.1 (1932)	69%	44%	31%
East Africa (£m)	4.5 (1924)	6.5 (1939)	21.1 (1943)	3.6 (1932)	55%	31%	17%
Palestine (£m)	1.9 (1924)	6.6 (1939)	37.0 (1945)	1.8 (1933)	27%	18%	5%
Ceylon (Rm)	59.1 (1924)	61.8 (1939)	308.8 (1945)	53.5 (1933)	87%	20%	17%
Malaya ($m)	120.6 (1920)	144.2 (1939)	186.2 (1940)	78.2 (1931)	54%	77%	42%

D: Lowest circulations usually during Great Depression years.
Caine had divided the absolutely lowest circulation figure by the most recent (D/C%). More appropriate may have been D divided by the more normal pre–war figure (D/B%) or even (B/C)%. The best method would have been Mars' detailed formula (see chapter 7).
Source: CO852/535/7: C.E.A.C. (Finance) (45) 20

Table A.9a Breakdown of colonial sterling assets into UK and other securities (£millions and %)

	(£million)			**Percent**	
	U.K.	**Dominions/ Colonies.**	**Total**	**U.K.**	**Dominions/ Colonies.**
1949	566	83	649	87	13
1950	735	89	824	89	11
1951	928	113	1041	89	11
1952	1032	136	1168	88	12
1953	1099	152	1251	88	12
1954	1223	166	1389	88	12
1955	1281	165	1446	89	11

Source: CO852/1576: Colonial Balance of Payments and Sterling Assets.

Table A.9b Colonial sterling assets by classes of funds (1949–55) (£million)

	1949	**1950**	**1951**	**1952**	**1953**	**1954**	**1955**	**Ch.49–55**
Official Loans to H.M.G.	17	15	9	8	6	2	2	–15
Funds with U.K. Banks	136	191	219	233	262	300	278	+142
Currency Reserves	236	282	337	363	372	395	439	+203
Marketing Board Securities	50	70	107	113	113	108	116	+66
Government General Reserves	60	100	171	235	268	324	347	+287
Government Special Reserves	150	167	197	220	235	265	264	+114
Total assets	649	825	1040	1172	1256	1394	1446	+ 797

Source: CO852/1577: Secret Treasury Memorandum on Colonial Sterling Assets.

Table A.9c Composition of the assets (at 31 December 1955) (£million)

	UK Securities	**Cash, Treasury Bill etc**	**Colonial and Dominion Securities**	**TOTAL**
Official Loans to H.M.G	.	–	–	–
Funds with U.K. Banks		280		280
Currency Reserves	370	30	40	440
Marketing Boards Securities	115	–	–	115
Government General Reserves	270	40	35	345
Government Special Holdings#	180	5	90	265
TOTAL	925	355	165	1445

These included savings banks funds, sinking funds, pension funds, renewal funds, development funds, price assistance funds, non–government bodies, other special funds. The components did not add up to the total

Source: CO852/1577: Secret Treasury Memorandum on Colonial Sterling Assets.

Table A.9d Colonial sterling reserves relative to key parameters (what year?)

Colony	Total Assets (£mil.)	Govt. Reserves (£mil.)	Assets as % of National Income	Assets as % of Imports	Govt. Reserves as % of Govt. Exp
Nigeria	285	105	45%	230%	200%
Gold Coast	195	85	100	230	200
Hong Kong	130	35	65	60	150
Singapore &	285	45	40	70	190
Brunei	45	40	1000	400	1200
Uganda	80	60	75	300	300
Malta	60	15	220	300	200
Trinidad	40	20	40	65	130

Source: CO852/1577: Secret Treasury Memorandum on Colonial Sterling Assets.

Table A.9e Reserves and foreign working balances of commercial banks in colonies (£million)

	1949	1955
Malayan area	15.8	73.7
Hong Kong	19.2	47.7
Bahamas	7.8	18.5
Malta	13.9	20.3
Nigeria	8.0	28.0
Gold Coast	1.0	11.0
Trinidad	6.8	10.5
Cyprus	4.6	10.1
Kenya	14.0	6.0
Uganda	2.0	4.0
Tanganyika	7.0	4.0
All Others	22.9	30.3
TOTAL	123.0	264.0

Source: CO852/1577: Secret Treasury Memorandum on Colonial Sterling Assets.

Table A.9f Liabilities and assets of banks in colonies, excluding Malaya and Hong Kong (£million)

	Sep. 1952	Sept. 1955
Liabilities/Deposits	220	290
Assets	220	290
Loans and Advances	85	130
Foreign Balances	85	110
Other Assets, net	50	50

Source: CO852/1577: Secret Treasury Memorandum on Colonial Sterling Assets.

Table A.10 Monetary events in London and internationally, and in colonies, 1518–1957

Year	Monetary events in London or internationally	Year	Concurrent events in colonies
1518	Spanish conquest of Mexico and Peru; increased flows of silver to Europe; decline in gold–silver ratio from 10:1 in Middle Ages to around 15:1 by 1700a.		
1588– 1816	Britain's rise to European supremacy and control over international bullion flows.	1588–1816	Britain undervaluing foreign currencies in colonies, opposing mints in colonies and paper currency
		1598	Britain demonetizing currencies in Ireland, removing seigniorage, restricting payments to London.
1692	Establishment of Bank of England and inflationary note issue.		
1696	Great silver recoinage; export of silver from Britain, and import of gold		
1717	Britain refused to remove overvaluation of gold as advised by Sir Isaac Newton (Master of Mint); effectively on Gold Standard.		
1774	Silver limited in legal tender.		
1780–1790	Reserves crises because of American War of Independence		
1793–1815	Reserves crises because of Napoleonic Wars		
1797–1821	Sterling becomes inconvertible until 1821	1799	Demonetization of gold in India
1805	Treatise by Lord Liverpool advocating Gold Standard for Britain	1806	Advocacy of silver standard for India, based on silver rupees, with seignorage deducted.
1816	Formal British adoption of gold standard and reduction of silver to tokens	1816	Rejection of silver dollar standard for West Indies

Continued

Table A.10 Continued

Year	Monetary events in London or internationally	Year	Concurrent events in colonies
		1818	Stoppage of gold coinage in some Indian mints.
1821	Gold convertibility restored	1821	Coining of special 'silver' anchor money for West Indies and Mauritius
1825	Reserves crisis	1825	Undervaluation of Spanish dollars; enforcement of British silver; accidentally leading to gold circulation based on foreign gold coins.
1830s	Reserves crises continue	1833	All India administration established. British silver rupee imposed; Gold coins demonetized, but receivable in British treasuries at undervalued rate.
1830– 1840	Bank of England failure to follow 'Palmer Rule' for gold reserves	1838–1844	Gold coins and standards removed from West African colonies; British silver tokens enforced.
1837–1839	Major reserves crisis		
1844	Bank Charter Act and fiduciary portion established		
1847	Reserves Crisis and suspension of Bank Charter Act		
1849–1851	Californian and Australian gold discoveries; gold depreciating.	1852	British silver limited in legal tender in Australasia, Hong Kong and the Straits Indian Treasury closed to gold, flooding in now at over valued rate.
1857	Reserve crisis and suspension of Bank Charter Act.		
1866	Reserves Crisis and suspension of Bank Charter Act.	1860–1867	Chinese ports opened up to British exports; Silver dollar established in Hong Kong and extended to China
1867	International Monetary Conference (excluding US): metropolitan countries agree on gold standard for themselves only, but not for colonies.	1867	Mansfield Commission recommendation of Gold Standard for India rejected by Britain; Silver rupees established for Mauritius and Ceylon.

1871–1874	Latin Union demonetizes silver, which begins sharp depreciation.	1871–	Silver standard Indian rupees and Straits dollars start to depreciate.
1873	Reserves crisis; net outflow of gold.	1874	Britain refuses gold standard and gold circulation for India.
1878	International bimetallism conference fails	1878	Britain retains India and colonies on silver;
1881	because of rejection by Britain; Another international bimetallism conference fails, similarly.	1880	Britain demonetizes non–British gold coins in African colonies.
1890	Barings collapse, reserves crisis.	1890s	Use of Indian funds, including currency reserves, in London
1893	US financial crisis; Failure of another international bimetallism conference	1893	Herschell Report for India, closing Indian Mints to the public. Herschell Report for Straits recommends new silver dollar.
1890s	British Government agitates for higher gold reserves	1894	Mowatt's Memorandum on colonial government and private bank note issues; British trade dollars minted for East.
1899–1902	Boer War and reserves crisis	1898–1899	West Africa Barbour Committee, Fowler Committee, India. Forced colonial investment into undesirable Consols, and conversion of colonial securities into sterling securities.
		1903	Straits Barbour Committee
1905–1908	Two reserves crises	1905	Colonial gold reserves moved to London; Colonial gold converted to silver; Colonial securities reduced in colonial reserves.
1910	British Exchequer empty. Increased pressure for Britain to create 'War Chest'.		Creation of new gold specie reserves for colonies; Colonial savings moved to London; Treasury rule that colonial currency reserves be in gold (in London) while local circulation and reserves be in silver.

Continued

Table A.10 Continued

Year	Monetary events in London or internationally	Year	Concurrent events in colonies
		1912	1912 Emmott Committee for West Africa;
		1913	1913 Chamberlain Committee for India;
1914	Reserve crisis	1914	Blackett Memorandum on use of colonial gold reserves for Britain's sterling reserves.
1914–1925	Suspension of gold convertibility for sterling; Sterling depreciating.		Restriction of colonial loans from London.
1926	Resumption of gold convertibility		
1931	Devaluation of sterling		Establishment of formal sterling area;
1934–1939	Low sterling exchange rate and interest rates to assist British Government financing and industry.		Restriction of colonial loans from London; Creation of currency boards in remaining colonies like Fiji, Gibralter, Seychelles. Creation of '1931 Rules' for Crown Agents for investment of the Joint Colonial Fund into Cash, British Treasury Bills, or short term British Government securities;
		1934	Enforced 90% holding of short–term British Government securities and reduction of colonial and dominion securities.
		1935	Creation of colonial Emergency Reserves in London.
1938	Issues of British Government securities failing; War imminent.	1938	Creation of '1938 Rule' for Crown Agents to move from long term British securities to short–term securities. Currency Board established for Malaya.

1939–1945	World War II.		
1943	Nuffield College study of currency board system by Mars, Manipulation of Ida Greaves Study Cold shoulder to William Arthur Lewis	1943 1943–1945	Establishment of '1943 Rule' for JCF to hold short–term British securities. Colonial Office agrees internally with Mars criticisms but refuses action because of likely adverse impact on British balance of payments. Imperial fostering of defensive study by Greaves.
1945–1947	Continuation of 'cheap money' policy for British Government Flight of capital from sterling.		Informal and illegal continuation of 'Rules' to counter Britain's balance of payments difficulties, while reducing colonial income; Outright freezing of colonial sterling funds; Banning colonial loans in London; Denying access to colonies' dollar earnings.
1947–1957	War in Malaya and Suez		Continuation of policies from 1945 to 1957.

Glossary

Bimetallism The use of both gold and silver as legal tender coins, with a fixed ratio between them.

Colony A territory over which the imperial power had legal control, including India (unless specified otherwise).

Commodity money Coins made of precious metal with the value usually bearing a close relationship to the intrinsic value of the metal.

CURRENCY Used in capital letters, to indicate the nominal stipulated value of a currency in sterling units of account, often associated with colonial 'raisings' of currency in nominal terms, effectively devaluations.

Currency areas The region where a particular currency circulated, often cutting across political boundaries.

Fiat money Currency of no intrinsic value, issued by the state.

Fiduciary That part of a currency issue backed by securities, usually of the imperial or colonial governments.

Gresham's Law Describes the market process whereby less valuable coins replace more valuable coins representing the same officially stated value.

Imperial A 'neutral' reference to the metropolitan power which had legal or de facto control over the colony, usually with reference to those making the ultimate decisions on colonial currency policies.

Imperialist Used in the sense of an unequal relationship in which the decision-making imperial power benefits at the expense of the colony.

Limit of legal tender A limit to the amount to which the token currency could be used for legal payment.

Metropolitan Generally referring to the European imperial powers but also including the United States.

Monometallism A monetary system where redemption is legally guaranteed into a defined physical quantity of precious metal (gold or silver)

Neocolony Country where a metropolitan power exercised informal or de facto control.

Raising The increasing of the officially declared nominal value for any coin.

Seigniorage The difference between the face value of a coin and the intrinsic metal value.

Standard coins Coin which could be used in settlement of all debts without limit of legal tender.

Symmetallic Monetary system which guarantees redemption into a monetary unit comprised of both gold and silver in fixed proportions.

Tabular standard For money where long term contracts are adjusted for changes in the general price level.

Token A metal coin out of which a seigniorage has been removed to ensure that the intrinsic value of the coin was less than the face value, and with a limitation of legal tender to maximum amounts.

Notes

1 Introduction: The Accepted History of British Colonial Currency Systems and the Key Questions

1. This new chapter was written (with some older material incorporated) on the advice of the publishers' readers.
2. See Walter Bagehot (1873) *Lombard Street: a description of the money market.* Project Gutenberg eBook (2003). Chapters 1, 2 and 3 have an excellent account of the complexities of the Bank of England in relation to other banks and the British Government.
3. While an additional chapter was written to relate this material to my book, it has been excluded for reasons of space and relevance to the main theme. There is a comprehensive bibliography by Thomas Gross, Thomas Joshua Heft and Douglas A. Rodgers (2012), which updated an earlier bibliography by Kurt Schuyler (1992) and Matthew Sekerke.
4. With my DPhil research ending in 1984, the 'thirty year rule' at the PRO allowed access to 1954 files at the latest. I did access a few later files in 1997 on a brief visit to London.
5. This issue is not satisfactorily addressed by monetary historians such as Pennington (1848), Chalmers (1893), Caine (1948–49), Shannon (1951), and Greaves (1953a).
6. The bulk of these records were read at the Public Records Office, Kew Gardens, London. The full list of files that comprise these 'Primary Sources' is given at the end of the book.
7. See Rothbard (2002) for his methodological insistence that the motives of decision-makers, and identification of who gained and who lost, must be central to any analysis of economic policies.
8. While my original thesis had this section as part of the conclusion, following external advice, it has been brought forward here to provide the reader with a clearer idea where the complex detailed historical analysis is heading.
9. Jevons (1909:278,280,281), letter to M. Wolowski, 12 December 1868.
10. Jevons (1909:284, 291), 'The Silver Question' (read to the American Social Science Association, September 1877).
11. During and after WWI, British gold reserves were being drawn down by Indian trade surpluses. Massive amounts of silver were temporarily bought from US and coined in India.
12. The concern seemed to arise out of the effects on political instability rather than the welfare of Indians.
13. In 1939 Indian Government silver was shipped to London, to be sold for delivery back to India, in order to conserve dollars and other foreign exchange (Correspondence between the India Office, the Treasury and the Bank of England from 20 September 1939 to 9 October 1939, PRO file T160/809/F.12471/012).
14. Correspondence between the Treasury, Bank of England, Colonial Office and Colonial Governments on PRO files CO852/409/4 and 5.
15. de Cecco (1974:58).

16. Quoted in Barratt-Brown (1974:31).
17. Greaves (1953a:3,11–12,29).
18. These are: medium of exchange, standard of value, store of value and means of deferred payment.
19. These are: portability, divisibility, acceptability, cognizability, homogeneity, and indestructibility.
20. See Nelson (1987) for a recent example.
21. This economist stumbled into historical analysis by accident and unbridled curiosity. It is ironic that a 'properly trained' and supervised historian would probably never have been allowed to attempt for his PhD such a monstrous analysis spanning three centuries and the entire British empire! This book may be a good example of 'outside the box' thinking and research.

2 Currency Policies for Britain 1660–1892: Adoption of Gold Standard and Rejection of Silver and Bimetallism

1. Good coins officially undervalued by the State were usually exported and what remained were overvalued or debased coins which had been 'clipped, sweated, filed, washed, and bored' to reduce the intrinsic metal content Kemmerer (1944:35, 135–36).
2. Feavearyear (1963:3–4) and Hawtrey (1950:236).
3. Harris addressed Part II of his Essay (*Wherein is shewed that the Established Standard of Money should not be Violated, or Altered Under Any Pretext Whatsoever*) to H B Legge, one of the Lords of the Treasury and Privy Council, Chancellor and Under–Treasurer of the Exchequer.
4. Sayers (1953:83).
5. Li noted (1963:49) that the valuation of the gold 'Unite' coin in 1661 gave a gold silver ratio of 15.5 in England lower than the 15.0 in Hamburg, hence gold flowed in and silver flowed out.
6. Feavearyear (1963:153, 220); Fetter (1965:1).
7. Kemmerer, 1944, p.37.
8. Feavearyear (1965:153); Hawtrey (1919:293).
9. The Treatise was written as a Letter to the King, with the assistance of George Chalmers.
10. Jenkinson, pp. viii–ix.
11. Fetter, 1965, p 57; Clapham, 1944, Vol.1, p 175.
12. During the international monetary conferences in the second part of the nineteenth century, Lord Liverpool's Treatise was reprinted with introductions by two Directors of the Bank of England stating that existing British Mint conditions were in 'exact conformity with Lord Liverpool's suggestions'. The reprint was inscribed to the British Chancellor of the Exchequer, who had also been involved in decision–making in the various imperial schemes for imposing silver on India.
13. There is no evidence for this last argument in the Treatise.
14. This scheme had been suggested by Corbyn Morris in 1757 (ibid pp. 18, 19).
15. British authorities argued the opposite for colonial currency policy a century later.
16. Jenkinson (1805:9); Harris (1757:37) in Part I of his essay (*The Theory of Commerce, Money and Exchanges*).

17. Jenkinson, 1805, pp. 87, 156. This claim was quite dubious since even the monetary experts of the time were not aware that the change had occurred.
18. The Treatise (1805, pp. 23, 142).
19. Report of the Lords of the Committee of Council appointed to take into account consideration of the State of the COINS of this Kingdom. 21st May, 1816.
20. Clapham (1949:1).
21. Vilar (1969:215); Hawtrey (1919:237).
22. Feavearyear (1963:176); Wiseley (1977:34).
23. Fetter (1965:12).
24. Andreades (1966:189–96); Fetter (1965:18–19).
25. Hawtrey (1919:291).
26. Fetter (1965:93) thought that very few argued for stabilizing the pound at the existing market rate of around 14s. Most experts were aware that trade and credit in the country depended on the Bank's free issue of notes and asked that a contraction be only gradually carried out (Wiseley, 1977, pp. 39–40).
27. Robey (1936:xiv).
28. Viner (1955:272).
29. Graph given in Horsefield (1953:52).
30. The US 1834 Banking Act relatively overvalued gold, as well as introduced measures such as the requirement from 1836 that public lands could be sold only for gold.
31. Andreades (1966:265).
32. In 1838 there were French and Belgian banking failures; in the United States, there were crop failures, suspensions of bank payments and bankruptcies, and states reneging on their interest payments. In addition to direct losses on American investments, British banks found themselves holding more than $100 million in doubtful American bonds, much purchased by the British governing classes.
33. Wiseley (1977:46).
34. Fetter (1965:131–32). Pennington was directly involved in colonial currency changes in 1838.
35. Fetter (1965:185–86). Peel had stated that the 1844 Act could be abandoned in a crisis (Feavearyear, 1963, p 277).
36. Anna J. Schwartz 'Banking School, Currency School, Free Banking School' in *Money* (ed) by John Eatwell, Murray Milgate and Peter Newman. The New Palgrave, 1987, 1989.
37. Monetary authorities been unable prevent the periodic financial crises which threaten the global financial system.
38. Silver was allowed to a maximum of one fifth of the metallic reserves but its conversion into gold depended on the bimetallic European states accepting it.
39. Horsefield (1953:109) argued that had Palmer's Rule been followed, the 1844 Bank Charter Act would not have been necessary.
40. Fetter (1965:201–09); Andreades (1966:331–40).
41. This section has benefited from E.H.H. Green (1988a), Friedman (1990) and Flandreau (1996), all published after the completion of my thesis.
42. Both Flandreau and Friedman incorrectly thought that the moves to the gold standard by Britain and United States were accidents of history. Hawtrey (1919:299) also thought that the US adoption of the 16:1 ratio was 'not by a definite act of policy but by an accidental overvaluation of gold'.
43. It might be useful if the econometric models developed by Flandreau and Friedman were revised to include the role of colonies in absorbing silver as currency, bullion, and jewellery.

44. This whole section is based on Friedman (1990).
45. This does not seem correct: the rural classes would have hardly wanted a gold standard in 1834.
46. It is extraordinary that the British public were similarly also in the dark about the British adoption of the gold standard.
47. Jevons (1909:278,280,281), letter to M. Wolowski, 12 December 1868.
48. Robey (1936:xii); Russel (1898:30); *The Proceedings of the International Monetary Conference*, Paris, 1981, p 2 (hereafter referred to as *The Proceedings….*
49. Russell (1898:73). Britain may have feared that international monetary integration would open up British national and colonial markets to her competitors.
50. Quoted in Russel (1898:105).
51. Robey (1936:xxii); Jevons (1910:146).
52. Before the war with Germany, France had $700 million of gold and $300 million of silver, while Germany had a mere $150 million of gold and $380 million of silver (Hawtrey, 1919, p 305).
53. Russel (1898:184,192) saw the Bland-Allison Act and the successes of the US silver lobbies paradoxically ensuring the failure of the bimetallic conferences by holding out hope that US would continue absorbing silver.
54. *The Proceedings…*, pp. 62, 334. There were complaints at the Conference that prominent British academics like Jevons completely ignored the colonial problem in their discussions of bimetallism.
55. *The Proceedings….*, p 166.
56. *The Proceedings….*, p 239.
57. *The Proceedings…*, pp. 241, 243.
58. *The Proceedings….*, p 236. Instead of furthering the cause of bimetallism, this would only have benefitted the European nations who wished to replace their silver reserves with gold.
59. *The Proceedings….*, p 243.
60. *The Proceedings….*, p 27.
61. *The Proceedings…*, p 159.
62. *The Proceedings…*, p 66.
63. *The Proceedings…*, p 3.
64. Green (1988a) quoting from the Final Report of the Royal Commission on Indian Currency, p. 7notes that the rupee burden virtually doubled.
65. These valid arguments were all pointed out by Horton (United States), Cernuschi (France) and the Chapman Memorandum (Chapman was the Financial Secretary to the Government of India). Their statements are in Appendix B (pp. 34–37), Appendix II (pp. 208–16) and pp. 131–66 respectively in *The Proceedings…* Ambedkar (1947:126–34) is also useful for the implications for India and other colonies.
66. See the statements by the Government of India representative and the Chapman Memorandum (*The Proceedings*, p 138). This also meant that Britain's valuation of silver coins in colonies were also incorrect (next chapter).
67. *The Proceedings…*, p 153.
68. It was estimated that world monetary stocks consisted of £720 million of gold and £640 million of silver. Chapman's Memorandum estimated that there were some 30 millions lbs. of gold and 480 million lbs. of silver (*The Proceedings…*, p 148).
69. Chapman's Memorandum.
70. *The Proceedings…*, p 299.

71. The French bimetallic experience for 150 years before 1873 clearly invalidated this criticism.
72. *The Proceedings ....*, p 14.
73. *The Proceedings ....*, p 85.
74. *The Proceedings ....*, pp. 16–17.
75. Russel (1898:319).
76. Barbour was a Member of Council of India, later Chairman of the Commissions of Inquiry into the West African and Straits currency problems. Chairman was Herschell, while other members were Fremantle (Deputy Master of the British Mint), Sir Sam Montagu (head of a major banking firm), Mallet, Lubbock (banker), T. Farrer (Secretary of the Board of Trade), Courtney (former Professor of Political Economy at University College, London), Houldsworth, Chaplin (President of Board of Agriculture), and Birch (former Governor of Bank of England) (listed in in Robey, 1936, p xxiv).
77. Part I of the Report could be considered the consensus report, Part II was associated with the Chairman (Herschell) and advocated the British retention of gold monometallism, while Part III advocated the adoption of bimetallism.
78. *Gold and Silver Commission ...*, pp. 138, 141–42.
79. *Gold and Silver Commission ...*, pp. 130–32.
80. *Gold and Silver Commission ...*, p 235.
81. *Gold and Silver Commission ...*, p 197.
82. *Gold and Silver Commission ...*, p 211.
83. *Gold and Silver Commission ...*, p 206.
84. *Gold and Silver Commission ...*, p 195.
85. *Gold and Silver Commission ...*, p 195, 208.
86. *Gold and Silver Commission..*, pp. 208–10, 237.
87. *Gold and Silver Commission ...*, p 295.
88. Interestingly, banker Currie organized the loan which rescued Baring.
89. In contrast to their public posture, the US authorities now saw no problems in acquiring adequate gold reserves, given their increasing trade surpluses.
90. Russel (1898).
91. Russel (1898:401).
92. England would have been required to place silver as one fifth of the bullion in the Issue Department of the Bank of England, raise the legal tender of silver from £5 to £10, issue £1 notes based on silver and replace half sovereigns by notes based on silver (Ambedkar, 1947, pp. 138–39).
93. Milton Friedman footnoted (1990, p.87) "few contemporary textbooks on money or macroeconomics ever mention bimetallism, although the gold standard is compulsory. Where mentioned it is held as inferior to gold monometallism'.
94. Most of these names appear on colonial currency committees or official currency policy correspondence.
95. Quoted in Green (1988, P.62).
96. Green, p.65).
97. De Cecco (1974:58).
98. Jevons (1909:224, 297), 'On the Condition of the Gold Coinage of the United Kingdom with reference to the Question of International Currency' (paper read before the Statistical Society of London, November 1868); and in 'Bimetallism' (*Contemporary Review*, May 1881, Vol. xxxxix).

99. See PRO file T160/411, 'The Silver Question', Memorandum by the Home Secretary (Sir Samuel Herbert), 7 January 1932.
100. Vilar (1969:285). Between 1733 and 1766, 65% of England's exports to Asia were in the form of silver bullion and even more of silver coin, with the total value amounting to over £400 million. This might be compared to only £9 million spent by France on similar transactions.
101. Plumb (1950:71,109–10); Ford (1962:249).
102. Feavearyear thought that it was this massive outflow of silver, in addition to the silver and bimetallic standards of European countries, which stabilized the price of silver in Europe for more than a century.
103. It was argued bimetallism gave the Bank of England greater freedom in meeting external drains.
104. Britain's public debt increased from only £15 millions in 1697 to £117 millions by 1785 and £505 millions by 1815 (Andreades, 1966, p 119).
105. E.H.H. Green (1988b).
106. Jevons (1909:284, 291), 'The Silver Question' (read to the American Social Science Association, September 1877).
107. Jevons (1910:142, 149) and (1909:329).
108. Wei (1914) pointed out that China absorbed large amounts of silver, exporting gold.
109. United States circulated the silver peso in the Philippines, Germany circulated silver rupees in her African colonies, while France had her silver francs.
110. *The Proceedings….*, p 92. *The Chapman Memorandum*, written in the Finance Department of the Government of India, was forwarded by the Government of India to the Secretary of State in London, with the full support of the Viceroy and the Financial Member of Council.
111. Feavearyear (1963:26) had stated that the Florentine merchants with their arbitrary fixing of exchange rates in the Middle Ages to discriminate against sterling had a 'financial despotism which London has never had'.
112. Metropolitan countries which imposed indemnities on China in terms of silver currency, demanded payments in *gold* units, which required greater nominal amounts of the silver currency.
113. *The Proceedings….*, p 92. *The Chapman Memorandum*, written in the Finance Department of the Government of India, was forwarded by the Government of India to the Secretary of State in London, with the full support of the Viceroy and the Financial Member of Council.
114. Public Records Office files T160/411/F3420/02 and T160/809/F.12471/012. These included extensive correspondence between the Treasury, Bank of England, India Office, and the Prime Minister's Office, as well as memoranda on the silver issues by Sir Arthur Salter, Sir Herbert Samuel, Kisch, Kitchin, Waley and others.
115. Narsey (1986).

3 Colonial Currency Policies, 1600–1893: From International to Localized Currencies

1. Chalmers (1893) also included a chapter on Malta written by Harris.
2. Horsefield (1953:121–22).

3. Circular Letter to Colonies, 15 September 1838. Appendix B in Chalmers (1893:426).
4. Pennington (1848), Chalmers (1893) and Shannon (1951).
5. The recent work by Friedman (1990) and Flandreau (1996) confirms this.
6. Hawtrey (1919:280, 293); Pennington (1848:125–33).
7. 1825 Treasury Minute, in Pennington (1848:186).
8. Shannon (1951:338) footnoted that the 4s.4d. price of the dollar persisted in New York until 1873.
9. Mundell (1998) traced the 'Gresham Law' mechanism to Greek poet Theognis, fifth century BC.
10. Chalmers (1893:7) quoted from Hansen's 1682 account of Jamaica that there was more running cash per inhabitant in Port Royal than in London, because of Governor Lynch's measure of raising coins by one fifth.
11. Chalmers (1893:14, 48) thought that French colonies were raising their currency by as much as a third.
12. *Report by the Token Money Sub-committee, Joint Finance and Banking Committee,* US Congress. 2011.
13. Ambedkar (1947: 222).
14. *Report from the Committee on the Circulating Paper, the Specie and the current coin of Ireland and also on the exchange between that part of the United Kingdom and Great Britain*. House of Lords Paper 48 of 1826, hereafter referred to as the Irish Report.
15. Daniel Carey and Christopher Finlay (eds.) (2011). Irish Academic Press. I am grateful for Professor Larry Neal for this reference.
16. Chalmers (1893:52) noted that the imperial authorities 'removed those gentlemen that had been concerned in the Paper Credit Act from their places at the Council Board, and from all other that were in the Governor's power'.
17. The doubloon was rated at £5.5s. CURRENCY and the dollar at 6s.8d. CURRENCY respectively (Chalmers 1893 p 107).
18. With the dollar rated at 6s.8d. CURRENCY, the doubloon then became valued at £5.6s.8d. CURRENCY. Since this Spanish doubloon had been reduced further in fineness from 21.75 to 21 carats in 1786, the gold standard which had been established in Jamaica well before 1786, became even more firmly established.
19. Chalmers (1893:109). The authorities had tried the same experiment in 1820 in Mauritius.
20. Treasury Minute, 11th February, 1825. Appended to Pennington (1848:182–99).
21. This made the dollar equal to 4s., instead of the 4s.4d. Sterling valuation given by the 1825 Order.
22. In Barbados, the doubloon was rated at £5 CURRENCY, the dollar at 6s.3d. CURRENCY (this gave a gold–silver ratio of 16), and the dollar was also thereby made equal to 4s. Sterling.
23. The British authorities claimed that Spain's rating of her doubloon at 16 dollars overvalued gold by 6.5% relative to the rest of Europe. Yet Britain's own sterling gold standard had also been created by an overvaluation of gold relative to silver.
24. Circular Letter to Colonies, Appendix B in Chalmers (1893:426).
25. Pennington (1848:61–62).
26. T1/3624: West Indies Currency. The Second Report on the West Indian Currency, 17 August 1838, by James Pennington.

27. The 1851 Memorandum by Wilson also suggests that civil servants who wrote and implemented imperial monetary policies were not part of the inner sanctum of decision-makers.
28. The sterling ratings gave a gold–silver ratio of 15.36 when the original West Indian ratio had been 16.
29. The 15.5 ratio may have been allowed because of Malta's proximity to bimetallic France.
30. Chalmers (1893:308). The section on Malta was written by C.A.Harris.
31. Sicilian dollars had lower silver content than the Spanish dollars.
32. Harris pointed out that the South American dollars lost 0.5% to 2% if they were converted into Spanish dollars, but lost 4% to 5% if they were exported; and the British silver tokens lost 8% to 10% (Chalmers 1893:314)
33. Harris in Chalmers (1893:316).
34. Harris in Chalmers (1893:317).
35. Harris in Chalmers (1893:319).
36. Footnote by Harris in Chalmers (1893:318).
37. CO129/80: Confidential Dispatch, Governor Robinson to Secretary of State, 9 March 1861. All quotes in this paragraph are from this source.
38. Butlin (1953:155).
39. CO882/1/xvii: Confidential Print, November 1851: James Wilson, Mauritius Currency.
40. Wilson recommended that rupees rather than gold sovereigns be made the currency of Mauritius so that returning Indian indentured laborers not take back sovereigns.
41. See Chalmers (1893:210–15).
42. See Chapter 6.
43. May 1845 Despatch from Lord Stanley to Governor Stuart of Malta, in Pennington (1848:123).
44. CO882/1/xvii : Confidential Print : James Wilson, Mauritius Currency. p 17.
45. Wilson rebutted the imperial authorities' argument that gold was for rich countries and silver for poor, observing that 'it never seems to have occurred to them that £100 of gold costs no more than £100 of silver ... or copper, iron or coal'.
46. The same claim would be made by the Barbour and Emmott Committees of inquiry into the British West African Currency situation.
47. Pennington (1848), p. 360.
48. Treasury Minute, 11 February, 1825, Appendix in Pennington (1848:185).
49. Hall noted (1959:224) that exchange premiums could be an exorbitant 25% in some colonies.
50. T1/3618.
51. Eighty years later, even the British tokens would have to be removed.
52. Ambedkar (1947:2–3); Thapar (1966:112–3); Moreland (p 53); Chalmers (1893:336, 340). The unit of weight for both gold and silver was the *rati* (seed of the Wild Liquorice plant), one hundred of which weighed 175 grains troy.
53. Both were of identical fineness and weight (175 grains troy).
54. The gold pagoda had circulated in Ceylon, Mauritius, St. Helena, the Cape, South East Asia and Australia (Chalmers 1893:342).
55. Ambedkar (1947:5–8), Coyajee (1930:5).
56. Ambedkar noted (1947:3) that gold and silver coins had fixed relationships to the copper coins and to each other.

57. The Indian Government rupee, at its legal rates, became unacceptable in other parts of the Empire, such as the Straits and Mauritius, where they had been previously circulating.
58. Ambedkar (1947:8–9); Coyajee (1930:10–11); Chalmers (1893:4,338).
59. Chalmers (1893:341); Ambedkar (1947:13–14). The legal valuation of the gold rupee at only 15 silver rupees when the world ratio was 15.5 ensured that gold would not coined at mints.
60. Ambedkar (1947:111–12); Chandavarkar (1984:770).
61. Despatch from Government of India to Secretary of State, 9 November 1878 (extracts quoted in Ambedkar 1947:117–19).
62. Ambedkar (1947:120,122).
63. Home Charges were the payments made by India to Britain supposedly for the British costs of administering India.
64. Dadabhai Naoroji was an extraordinary Indian political leader who later became an elected Member of the British Parliament.
65. The penetrating criticisms of Naoroji may be found in his submission to the 1898 Fowler Commission (Enclosure 25, Appendix 1 to the Fowler Report). The imperial authorities tried to prevent him from giving evidence to the Fowler Inquiry.
66. Naoroji quoted from a Treasury letter of 24th November 1879.
67. With the Home Charges denominated in sterling, the real amount needed in terms of quantity of merchandise, would be the same regardless of the exchange rate.
68. Dutt pointed out (1949:125) that in the period 1933–34 also Britain was extracting gold from India while coining silver rupees.
69. Ambedkar (1947: 31,40), Tables IV and VIII.
70. In 1718, for instance, while Britain exported £850,000 worth to America, her imports were worth £2,600,000 including gold and silver (Chalmers, 1893, p 5).
71. Chalmers (1893:4–7,13).
72. Massachusetts in 1652 set up a mint for coining 'pine tree' shillings, which had 22.5% less silver than that contained in sterling shillings. The Mint was closed down after thirty-two years (Lester 1970:20).
73. The following account is based on Lester (1970), Chalmers (1893), Nussbaum (1957) and Galbraith (1975).
74. T108/Vol.9/1888/5403.
75. T108/Vol.9/1889/7886 and 13192; 1890/1998; 1896/14391.
76. T108/1897/4517 and 6281.
77. T108/1898/11044; 1897/14105.
78. T108/1901/3611, 5157.
79. T108/1903/2425.
80. T108/1905/745/8796. The Union Bank of Halifax was allowed to issue notes in Trinidad without any security cover (T108/1906/13968).
81. T108/1906/12934/20829.
82. T108/1910/4577; 1912/6555; 1913/18364.
83. T108/1898/2968/13090; 1899/6659,16502,19816.
84. T108/1884/18072 and 1889/13189.
85. Treasury to the Colonial Office, 21 September 1894 [CO879/109/979: African (West) No.979].
86. Similar difficulties with the Bank of England did not also lead to the same conclusion and policies in Britain.

87. Note that this last clause did not guarantee the right of the public to have their notes redeemed in gold, since in colonies, the 'standard' coins, while tokens, had unlimited legal tender.
88. These powers enabled the Secretary of State to use colonial gold reserves for buying British Consols, or silver in London. It is possible that these 1894 rules were related to wider plans by Treasury officials Goschen, Welby and others for countering the inadequacy of gold reserves in London.
89. Bloomfield (1963:85–6).
90. Andreades (1966:362–369).
91. The British Government promised to bear half the loss the Bank might incur in taking in Baring's bills while additional funds came from France and Russia, and other joint-stock banks (Feavearyear, 1963:327; de Cecco 1974:94–5; Andreades 1966:364).
92. Sayers (1936:40) and (1976:39–40).
93. Sayers (1936:14); Van–Helten (1982:535,541).
94. 'Lord Milner and the South African State', *History Workshop Journal*, VIII (1979), 52–80.
95. Sayers (1936:90–2); Sayers (1953).
96. Sayers (1936:42); Beach (1935:135); de Cecco (1974:68,70,124–5).
97. Beach (1935:135).
98. Sayers (1936:134,41); Beach (1935:140); Feavearyear (1963:327,329).
99. Sayers (1953:144–148); Beach (1935:155–6); Sayers (1936:94–5).
100. Sayers (1936:36–7); Beach (1935:142).
101. Bloomfield (1963:84); Beach (1935:143); Sayers (1936:42).
102. Beach (1935:142).
103. de Cecco (1974:125); Sayers (1936:54); Beach (1935:145).
104. Sayers (1953:147); Beach (1935:147).
105. De Cecco (chapter 2) notes that this decline occurred in third markets and at home, but not in the colonial Empire where the authorities survived through monopoly privileges, tariffs and by discriminatory official purchasing.
106. Feavearyear, 1963, p 317.
107. Triffin (1964:7).
108. de Cecco (1974:76,81,86).
109. Sayers (1936:54); Beach (1935:146).
110. The gold devices were premiums paid for gold bars, free advances on gold imports, higher prices for foreign coins, and the giving out of gold coins of minimum weight.
111. de Cecco (1974:124); Pressnell (1968:216); Van Helten (1982:535).
112. Beach (1935:147).
113. Sayers (1936:98); Sayers (1956:148).
114. Beach (1935:149).
115. Key roles were played by Welby (and later Hamilton) at the Treasury, Lidderdale at the Bank of England, and Goschen (Exchequer). Welby features in many imperial decisions.
116. Source: (de Cecco, 1974, p 244).
117. Bloomfield (1963:30–32).
118. Pressnell (1956:208); Andreades (1966:364,374–5); Sayers (1936:10).
119. Sayers (1976:61).
120. Pressnell (1968:171,224–25).

121. de Cecco (1974:132). The discussion below draws heavily on this extremely perceptive study.
122. The Blackett Memorandum is in de Cecco (1974) as Appendix A, or in Sayers, 1976, Volume 3.
123. Blackett would become an influential adviser on currency policy throughout the British Empire. Two decades later he was recommending that the currency reserves of Malaya be increased even beyond the 110% cover.
124. British investment in colonies had absolutely no risk of loss from political crisis, while the British economy obtained the benefits of foreign investment.
125. Keynes had estimated that total sterling reserves of India were roughly £52 millions in 1912 (de Cecco 1974:240,243).
126. Shannon (1951:337) incorrectly thought that Britain showed the same 'tolerance' by legalizing US gold coins in some colonies.
127. Shannon noted that colonies had cheaper ways of transmitting currency to London instead of through the authorities who were charging 3% commission on exchange.
128. Hopkins (1970:104).

4 India, 1893–1914: Conflicts and Resolution

1. One exception was Hazlewood (December 1954).
2. The sterling rate for the rupee dropped from 24d. before 1871 to 15d. by 1893 (Ambedkar 1947:99).
3. The notes of the three Presidency Banks amounted to only £2 millions in 1860, while total coin circulation was more than £100 millions (Ambedkar 1947:51).
4. It would be useful to examine possible connections between the Exchange Banks in India and the City interests.
5. Coyajee 1930:15.
6. Chalmers (1873:340).
7. In 1866, the Government discharged the Presidency Banks from being their agents. Ambedkar (1947:54–55).
8. See chart in Ambedkar (1947:63).
9. Among the members was David Barbour while Robert Chalmers was Secretary.
10. Lindsay, Deputy–Secretary of the Bank of Bengal, had advocated this scheme in 1876, based on recommendations by a Committee on Irish Exchange (Keynes 1913a:34).
11. Fowler Report, paragraph 51.
12. The Fowler Committee was apparently swayed by the view of financiers Rothschild, Lubbock and Montagu. Montagu's company held large amounts of Indian cash balances in London.
13. By this time, more than 40% of the face value of rupees was seigniorage profit.
14. The Abrahams Memorandum, Appendix to the Chamberlain Report.
15. Fowler Report, paragraph 59.
16. Keynes (1913a:37).
17. Appendix III on the origins of the Gold Standard Reserve and Appendix I on imperial policy on Government Cash Balances were written by Lionel Abrahams, then the Assistant Under–Secretary of State for India (later to be knighted) while that on the Paper Currency Reserve (Appendix VIII) was written by F. W. Newmarch, Financial Secretary at the India Office.

18. Appendix VIII, Chamberlain Report, memo by Financial Secretary Newmarch.
19. Council Bills were a technique developed by the Secretary of State to purchase sterling in London in return for rupees in India. 'Reverse Councils' achieved the opposite.
20. This implied the Secretary of State was trying to sell rupees for sterling when there was insufficient demand for rupees and therefore hence its par was being forced down.
21. The Abrahams Memorandum gave as example the 1907 experience when the Government of India issued sovereigns for rupees and found that the sovereigns did not return into the Treasury coffers.
22. The Memorandum pointed out that the £25 millions was equivalent to 70% of the capital cost of the entire major irrigation works in India up to 1912 or the total cost of the Bengal-Nagpur Railway.
23. The irrigation investment produced a direct revenue in 1911–12 alone of £2.5 millions which, even disregarding the obvious external economies such as insurance against famine, represented direct monetary returns of 7%. The investment in the Bengal–Nagpur Railway produced *direct* monetary returns of at least 4.7% per year.
24. Stuart Sweeny, Essays in Economic & Business History, Vol XXVI, 2008
25. Appendix I, Chamberlain Report.
26. It was only in 1913 that the balances were roughly in proportion (the Government of India disbursements in India and London were about £90 millions and £34 millions while the cash balances were about £20 millions and £8 millions).
27. The Secretary of State sold £72 millions more Council Bills than budgeted over the period 1893–94 to 1912–13 (Chamberlain Report, Appendix II, Statement F).
28. The average rate of interest received by the India Office was 2.6%, lower than what India paid for loans from the London money market. Balances with the Bank of England earned no interest.
29. Letter, dated 22 January 1913, from the Government of India to the Secretary of State (part of the Appendices to the Chamberlain Report). The Memorandum admitted that banks might not have asked for loans since the Indian Government demanded a rate of interest higher than the prevailing market rate.
30. All the internal correspondence quoted here is from Appendix V to the 1914 Chamberlain Report.
31. Chamberlain Report, Appendix VIII.
32. Westland (Financial Member for India) noted that the Exchequer's were less than 20% of the Bank of England's balances, while Government of India balances were 70% of the Presidency Banks' cash resources.
33. This would have doubled the Government balances with the Presidency Bank, even though a fraction of the idle Government balances in India or in London.
34. Reply of May 1899.
35. Despatch of January 1900.
36. The Law Memorandum was part of a Despatch from the Viceroy to the Secretary of State, 6th September 1900.While Law was a Finance official in the Government of India, it is unclear whether the Memorandum originated in India, or was instigated from London.
37. This was to be financed through the £7 millions of gold remaining in the Paper Currency Reserve, leaving £3.6 million. The invested portion would then have constituted 50% of the total note circulation of 300 million rupees. This would also be the proportion stipulated in colonies' currency funds.

38. Secretary of State to Government of India, 13th December 1900.
39. Government of India to Secretary of State, 30th July, 1903. The Viceroy's letter was signed by all his Indian Government experts, including Law.
40. Secretary of State to Government of India, 11th September, 1903.
41. Government of India to Secretary of State, 18 August, 1904.
42. The Bank pointed out that between 1895 and 1903, while the registered debt held by Europeans had declined from 742 million rupees to 688 million rupees, that held by Indian natives had doubled from 233 to 453 millions.
43. Government of India to Secretary of State, 12th January 1911.
44. Secretary of State to Government of India, 7 April 1905. In 1904 he had considered a reserve of £6 millions to be adequate and there was now more than £10 millions.
45. This function would be later completely ignored by the Secretary of State himself. More importantly, it was being proposed to replace gold with inconvertible silver bullion or coins.
46. Telegram from the Government of India to Secretary of State, 15th December 1905.
47. The Secretary of State, to prevent gold from going to India, had been selling inordinately large amounts of Telegraphic Transfers to be exchanged for rupees in India. At the same time, he was refusing to make the corresponding transfers to the Currency Reserve.
48. Viceroy to Secretary of State, 26th April 1906.
49. Secretary of State to Government of India, 20th July, 1906.
50. Secretary of State Government of India, 30th November 1906 and reply of Government of India to Secretary of State, 4th December 1906.
51. Telegram, Viceroy to Secretary of State, 6th December 1906 and telegram of next day.
52. Secretary of State to Viceroy, 7th December 1906. Bonds amounting to a mere £1,795,100 were to fall due between 31st December 1906 and 18 February 1907, of which London wanted to renew £1,374,000.
53. Telegrams, Government of India to Secretary of State, 16th February 1907 and 21 February 1907.
54. Earmarking of gold for India supposedly meant that the Bank was required to regard it as exported to India and not available for any other use. The imperial deviousness of this policy was revealed by the Blackett Memorandum discussed previously.
55. Secretary of State to Government of India, 26th April, 1907.
56. Viceroy to Secretary of State, 1st April 1909.
57. Secretary of State to the Government of India, 2 July 1909.
58. Government of India to the Secretary of State, 30th September 1909. The cause of this about turn should be an interesting research question.
59. Secretary of State to Government of India, 18 February 1910.
60. Government of India to Secretary of State, 29th February 1912.
61. In the 1907–08 crisis, the £11 millions of sterling reserves had come from *both* the Gold Standard and Paper Currency Reserves.
62. Read the submissions of Webb (Chairman of the Karachi Chamber of Commerce); Pandya (Secretary to the Indian Bank Ltd. of Madras); and Dalal (Senior Partner of Merwanjee and Sons, Stock, Bullion, Exchange and Finance Brokers, Bombay) which are all in Appendix XXX to the Chamberlain Report.

63. These included Samuel Montagu and Company, National Discount Company and Union Discount Company who each received sums of over a million pounds each.
64. Webb's evidence had a list of such firms and the amounts lent (Chamberlain Report, Appendix XXI).
65. Statement by Webb.
66. Evidence by Dalal, Appendix XXX, Chamberlain Report.
67. Evidence by Webb.
68. Keynes (1913a:38).
69. Keynes (1913a:39) quoted the Secretary of State's stipulation of May 1860.
70. At the time, the circles were based on Calcutta, Bombay and Madras, with Rangoon, Karachi, Cawnpore and Lahore only created in 1910.
71. Keynes (1913a:57).
72. Keynes (1913a:178–79).
73. Keynes (1913a:180–81).
74. Keynes (1913a:51).
75. Keynes (1913a:132–33).
76. Keynes (1913a:37).
77. Keynes (1913a:15,20).
78. Keynes (1913a:147).
79. Keynes thought it better that rupees and notes be hoarded rather than gold.
80. Keynes (1913a:194).
81. Keynes (1913a:178).
82. Keynes (1013a:136).
83. Keynes (1913a:137).
84. Keynes (1913a:179).
85. Keynes (1913a:181–84).
86. Keynes (1913a:61).
87. Keynes (1913a:256).
88. Keynes (1913a:191).
89. de Cecco (1974), Table 10.
90. Keynes (1913a:234).
91. Keynes (1913a:239).
92. Keynes (1913a: p 35).
93. Keynes (1913a:259).
94. Keynes (1913a:237).
95. Kuhn, a physicist who could not get tenure at Harvard, reached his groundbreaking theory following his historical research into the many contradictions in scientific theory.
96. John Wasik quotes Skidelsky, a biographer of Keynes 'He wanted to make money in a hurry in the 1920s and thought gambling on currencies…was the way to do it' (in 'John Maynard Keynes as an Investor: Timeless Lessons and Principles'. Excerpts from his book *Keynes's Way to Wealth*. (McGraw-Hill, 2013). Skidelsky thought that Keynes had taken to investing before 1910.
97. See the evidences of D'Eremear, a former Chaplain in India (Herschell Report, Appendix III) and the British Committee of the Indian National Congress (Fowler Report, Appendix 1, Enclosures 25, 26).
98. This was appropriately pointed out by Naoroji who made submissions to both the Herschell and Fowler Inquiries (Fowler Report, Appendix 1, Enclosure 25).
99. As indicated by the Law Memorandum.

100. Critics (for example, Reed, the Editor of The Times of India) complained to the Chamberlain Commission that Indian interests had ceased to be directly and indirectly represented.
101. Chamberlain Report, Appendix XXXV.
102. The Finance Committee included many who received *without security,* deposits of more than £1.2 million each. They included B.W.Currie (1880–95), and L. Currie (1911–) of Glyn, Mills, Currie and Co.; F. C. Le Marchant and J. L. Mackay of the National Provincial Bank of England; F. Schuster of the Union of London and Smith's Bank. See the detailed list by Webb in Appendix XXI, Chamberlain Report and Appendix XXIV.
103. de Cecco (1974:89).
104. de Cecco estimated that in the eight years before 1914, the authorities sold £100 millions of Council Bills which were kept without interest at the Bank of England, who protested when the Secretary of State began to lend these balances to the Finance Houses.
105. Add to the plot the 'high society' lives of Keynes and the City's financiers, merchant bankers and bullion dealers, and it would be easy to imagine a wonderful screen play for an Ivory Merchant film set in the first five tumultuous decades of the twentieth century leading to the political independence of India.

5 Straits Settlements, 1893–1912: Transition from India to West Africa

1. Christmas Island, Cocos Island and Labuan (an island off Borneo) were also part of the Straits Settlements.
2. These dollars were minted in the British Hong Kong Mint briefly after 1866, but on a larger scale after 1895.
3. The dollar fell from around 52d. before the 1870s to 26d. by 1896 and 18d. by 1903 (King 1957:11).
4. Different from the West African Barbour Committee.
5. CO/882/7: Eastern No.83) (all references will be to this file unless otherwise stated). *The 1893 Report of the Local Currency Committee in the Straits* was an appendix to the 1903 Barbour Report.
6. This committee is referred to as the 'Straits Herschell Committee' to distinguish it from the India Herschell Committee.
7. King (1957:2–3); Chalmers (1893:29–30).w
8. King (1957: 1).
9. King (1957:2); Drake (1969:14). Hong Kong and China were also regarded as part of this silver dollar area.
10. Before British control, all these currencies circulated, but only at their bullion values (King 1957, p. 2).
11. The *Report of the 1893 Local Currency Committee* and its appended statements were given as Appendix 16 of the 1903 Barbour Report.
12. The Chairman of the Committee, Herschell had been one of Britain's representatives to the 1892 bimetallism conferences, as well as being the chairman of a concurrent committee of inquiry into Indian currency.
13. One representation (Statement IV) was by a group of Chinese associated with the Council Chamber who expressed disagreement with the European members of the Committee.

14. Statement by Murray, appended to the 1893 Report.
15. *Report of the Commissioner appointed by the Secretary of State for Colonies to Enquire into the Question of Malayan Currency* (the Blackett Report), Straits Settlement Council Paper No.78, 1934. King (1957:20) stated that it was also recognized that 'the note issue of the Commissioners was in fact as well as in practice irredeemable'.
16. While the Asiatic Bank had failed in 1866 and the Oriental Bank in 1884, the Chartered Bank, the Mercantile Bank of India and the Hong Kong and Shanghai Banking Corporation were all successful.
17. The Hong Kong and Shanghai Corporation was required to have coin and bullion reserves of only one third of the notes issued in the Straits itself, and aggregate coin and bullion reserves of only two thirds of the total note issue, for which shareholders had unlimited liability.
18. The total private note issue by 1891 was only about $3 millions (King 1957:7).
19. King (1957:9–10).
20. This system had a flaw in that once the Depreciation Fund reached 10% of the Investment Fund, the income from the Investment Fund was paid into General Revenue even though at the same time General Revenue might be paying into the Fund because the total backing was less than 100% of the Note Issue. This was corrected in 1923 (King 1957:10).
21. King (1957:10).
22. T108/72/14180 and T108/82/10777).
23. Between 1905 and 1910, the note circulation increased from 17 to 32 million dollars, while the coin circulation dropped from 25 millions to 8 millions.
24. This committee is referred to as the 'Straits Barbour Committee' to distinguish it from the 'West Africa Barbour Committee'.
25. India in 1893, Japan in 1897, Siam in 1902, and Philippines in 1903.
26. The Chairman was David Barbour, who had also been Chairman of a similar 1899 Committee in West Africa. Other members were W.Adamson, G.W.Johnson, W. Blain and A.E.Collins as Secretary.
27. Straits Barbour Committee Report, paragraphs 34, 36, 38.
28. Straits Barbour Report, paragraph 39. Between 1881 and 1901, trade had grown by about 300% for both the Straits and the Malay States.
29. It ignored that the opposite was true in terms of the actual *number* of transactions.
30. Straits Barbour Report, paragraph 47.
31. Drake (1969:18–20). See Tables 4 and 5 which were derived from E.W. Kemmerer, *Modern Currency Reforms*, Macmillan, New York, 1916.
32. Drake (1969:20) quoting King (1957). Drake, however, had a footnote quoting Kemmerer that a considerable number of exporters did not want to leave the silver standard.
33. King (1957:10–11).
34. See the evidence of Campbell, Manager of the National Bank of India.
35. See Whitehead's memorandum (Appendix 13 to the 1903 Report).
36. Paragraph 1841.
37. Memorandum by Allinson, a Member of the Legislative Council. (included as Appendix 18 to the Report and circulated to the Secretary of State in London).
38. Evidence of Jackson (paragraphs 431–440) and Campbell, Manager of Standard Bank of India (paragraph 708).

39. The Committee gave examples of other colonies or neocolonies: the Philippines, Indo-China, and Dutch East Indies.
40. Report, paragraph 43.
41. Evidence by Jackson, paragraphs 431–40.
42. Report, paragraphs 61 and 62.
43. Evidence by Dato Abdul Rahman (paragraphs 1396–407).
44. Evidence by R. Craig (paragraph 1444).
45. Report, paragraph 56.
46. Report, paragraphs 369–73.
47. Questions to the Manager of National Bank of India (paragraph 730).
48. Report, paragraph 49.
49. Report, paragraph 216–17.
50. The 1903 Report noted that between just 1895 and 1901, the banks had imported 119 million British dollars (and 81 million other dollars) into the Straits.
51. See the evidence by Whitehead, the Manager of the Chartered Bank of India.
52. Drake (1955:22).
53. Report, paragraph 196.
54. Colonial Office to Treasury, 15 April 1903: CO882/9/108 : Eastern No 108: Confidential: Correspondence 15 April 1903 to 5 March 1909: relating to Currency Questions of the Straits Settlements). All following references are to this file, unless otherwise stated.
55. Secretary of State to Governor, 19 September 1903; Governor to Secretary of State, 8 February 1904; Secretary of State to Governor, 19 February 1904.
56. Treasury to Colonial Office, 14th December 1903; Secretary of State to the Acting Governor of the Straits, 17 December 1903.
57. Secretary of State to Governor, 21st October 1904.
58. Treasury to Colonial Office, 20 April 1903.
59. Secretary of State to Governor, 25 May 1904.
60. Colonial Office to Governor, 23 April 1903; Governor to Secretary of State, 26 October 1903; Secretary of State to Acting Governor, 17 December 1903; Governor Sir Anderson to Secretary of State, Sir Ommanney, 15 August 1904; Secretary of State to Governor, 2 September 1904; and Governor to the Secretary of State, 11 September 1905. London authorities were advised by consultants that the long term expectation was for the price of silver to fall.
61. The Straits also felt that in their coinage of silver, they ought to adopt the gold–silver ratio of 32:1 to gold, as used by the Americans in the Philippines, and the Japanese for their yen.
62. Colonial Office to Governor, 23 April 1903; Governor to Secretary of State, 26 October 1903; and Secretary of State to Acting Governor, 17 December 1903.
63. Governor to Secretary of State, 19th October, 1905.
64. Secretary of State to Governor, 17th November 1905.
65. Governor to Secretary of State, 18 November 1905.
66. Secretary of State to Governor, 21st November 1905.
67. Secretary of State to Governor, 19th December 1905.
68. Governor to Secretary of State, 3 January 1906; Secretary of State to Governor, 4 January 1906.
69. Governor to Secretary of State, 6 January 1906.
70. London and the Straits had disagreements about the cause of the rising Straits dollar.
71. Governor to Secretary of State, 10 January 1906.

72. Secretary of State to Governor, 12 January 1906 and Secretary of State to 17 January 1906.
73. Governor to Secretary of State, 22 January 1906.
74. In India, the monetary scarcity had been induced when the price of silver was falling. The Straits pointed out that while the Hong Kong exchange had closely followed the price of silver, the Straits exchange had not.
75. Secretary of State to Governor, 25th January 1906. The dollar was fixed at 2s.4d. on 29 January 1906, when the intrinsic value of its silver was 2s.1.125d.
76. The Secretary of State claimed that this was 'specially necessary if Netherlands Bank has been making corner in dollars and notes, as I have heard rumored'.
77. Treasury to Colonial Office, 9th April 1906.
78. Drake (1969:22) quoting Anthonisz.
79. Secretary of State to Governor, 17 February 1906.
80. Colonial Office to India Office, 11 June 1906.
81. India Office (Abraham) to Colonial Office (Collins), 12 June 1906.
82. Secretary of State to Governor, 10 July, 1906.
83. Governor to Secretary of State, 27 July 1906.
84. Governor to Secretary of State, 6 October 1906.
85. King (1957:13).
86. Governor to Secretary of State, 22 December 1906. They pointed out that for a note issue of $25 millions, they had a gold reserve of $4.4 millions and a silver dollar reserve of $10.5 millions.
87. Secretary of State to Governor, 18 January 1907.
88. The more rational policy would have been to keep all the seigniorage profits as gold, instead of coining even more tokens which had no value internationally.
89. Governor to Secretary of State, 2 October 1907.
90. Crown Agents to Colonial Office, 2 January 1908.
91. See the *Statement of Account of Currency Commissioners, for month ended February 1904*.
92. It apparently resulted from representations made by the Crown Agents to the Colonial Office, 1 September 1908.
93. Governor to Secretary of State, 9 December 1908.
94. Treasury to Colonial Office, 28 July 1909. [CO882/9: No 113 Eastern No.113. Straits Settlements: Further Correspondence. 6 April 1909 to 11 July 1911 relating to Currency Questions]. All following references will be to this file unless otherwise stated.
95. In 1905–06 the imperial authorities also used Indian gold to purchase massive amounts of silver even though the Indian Government did not want silver coins or bullion.
96. A month later, the Governor was instructed to amend the regulations to prevent Australian gold going to the Straits (Secretary of State to Governor, 17 August 1909).
97. Colonial Office (Collins) to Treasury (Bradbury), T1/11454/16436: Straits Settlements Currency. Files 1909/1390, 7350, 7836, 17261, 22859.
98. Colonial Office to Treasury, 17 July 1909.
99. Colonial Office to the Treasury, 13 November 1909.
100. Treasury to Colonial Office, 15th November 1909.
101. Note by Hawtrey, 13 November 1909 (T1/11454/22859).
102. Fifty years later, critics of the system would have to reiterate this same point against vehement Treasury opposition.

103. Colonial Office to Crown Agents, 30 November 1909.
104. The Bank of England held the Colony's gold and actually charged the Straits Government for the 'service' (Crown Agents to Colonial Office, 16 December 1909).
105. Secretary of State to the Governor, 20 November 1909.
106. Governor to Secretary of State, 27th January 1910. Similar total reversals of opinion by colonial civil servants also occurred in India and other colonies.
107. Governor to Secretary of State, 14 July 1910.
108. Between December 1905 and June 1910, silver coins declined from $24 millions to $7 millions while the note circulation increased from $17 millions to $32 millions.
109. Governor to Secretary of State, 15 August 1910.
110. Governor to Secretary of State, 8 September 1910.
111. The Indian Government had to reduce its reserves by 133 million rupees, which was only a third of its reserves and less than 5% of its total note and coin circulation of 2,900 million rupees.
112. Treasury to Colonial Office, 24 September 1910.
113. Treasury to Colonial Office, 7 June 1911.
114. Colonial Office to Crown Agents, 19 May 1911.
115. Returns in Crown Agents to Colonial Office, 27 June 1911.
116. Governor to Colonial Office, 2 March 1911; Secretary of State to Acting Governor, 19 May 1911.
117. King (1957:17).
118. Barbour Report, paragraph 486.
119. King (1957:14,17).
120. Drake (1969:25,26) quoting from Kemmerer.
121. Drake (1969:30) quoting Caine's anonymous publication in *The Banker*.
122. King (1957:14).
123. In 1934, the Currency Commissioners were asked to charge commissions of 0.6% on every dollar issued but 2.7% on every dollar redeemed.
124. Drake (1969:21); King (1957:11).
125. King (1957:12–13,14).
126. King (1957:14).
127. Drake (1969:24).

6 Establishment of the West African Currency Board and East African Anomalies

1. Hopkins (1970:121).
2. This suggests that while the committee membership was hand-picked, some remained independent.
3. Colonial Office to Sir Barbour, 26th October, 1899. [CO879/62, African (West) No. 616. West African Currency Committee. Report, Minutes of Evidence and Appendices. Colonial Office, March 1900]. All following references will be to this file until otherwise stated.
4. Colonial Office to Barbour, 26 October 1899 (Barbour Report and Minutes of Evidence [CO879/62: African (West) 616]).
5. Although an 1843 Order in Council had declared doubloons, the gold 20-franc piece and Spanish dollars legal tender in Gambia, Sierra Leone, Gold Coast and

Lagos, the reality was that they were legally undervalued and eliminated by Gresham's Law. In 1852, similar undervaluation eliminated the US eagles and the Belgian, Swiss, and Italian five-franc pieces in 1874. The French five-franc piece was not demonetized because the authorities feared the action may have been 'misconstrued' in the neighboring French possessions. Gold dust and nuggets were demonetized in 1889 and 1894.

6. Report, para.27.
7. Barbour Report, p vii.
8. Barbour Report, pp vii–viii.
9. Barbour Report, p viii.
10. Report, para.37.
11. Report, para.39.
12. Report, para.41.
13. The 5 franc piece then constituted the bulk of the currency in Gambia and Sierra Leone. Natives from neighboring French territories used it to buy by British goods, while the Gambian colonial government made a profit by buying it at the legal undervalued rate and selling in U.K. at the higher market rate.
14. Total government expenditure for Gambia was only £37,000 with trivial amounts spent on public works, health and education [African (West) No. 618, 1900 Estimates for West African Colonies].
15. Barbour Report, paragraphs 60–63.
16. Report, para.64, 65.
17. Barbour Report, p 40.
18. Minutes of Evidence, pp 38–39.
19. Evidence of the Chairman of the Royal Niger Company.
20. Hopkins (1973:123); Newlyn and Rowan (1954:31).
21. CO879/66/645, Sierra Leone Colonial Government to the Treasury.
22. CO879/66/645 : Treasury to Colonial Office, August 16, 1900.
23. Quoted in Hopkins (1973:122).
24. CO879/66/645: Secretary of State (Chamberlain) to the Governors and High Commissioners of British West Africa, 2 May 1902.
25. Governor to Secretary of State for Colonies, 20 December 1907 [CO879/109/979: African (West) No. 979. Confidential (Printed) Correspondence, 30 November 1907 to 12 August 1910. Relating to Proposed Establishment of a Government Note Issue in West African Colonies]. All following references will be to this file until otherwise stated.
26. Note by Chief–Assistant Treasurer in the S.Nigerian Treasury (Enclosure no.4 to the Governor's reply to the Secretary of State, 10 September 1908); Johnson in the Nigerian Legislative Council, Recorded Minutes of Proceedings of the Legislative Council (also enclosed in Governor's reply).
27. Treasury to Colonial Office, 21st September 1894.
28. Treasury to Colonial Office, 29 October 1909.
29. Governor, Gold Coast to the Secretary of State for Colonies, 11 December 1909.
30. Colonial Office to Treasury, 31 December 1909.
31. Treasury to Colonial Office, 12 February 1910.
32. Treasury to Colonial Office, 9 May 1910.
33. Received in Colonial Office, 12 August, 1910.
34. Hopkins (1970:107,129,126–27,119).

35. *Report of the Departmental Committee appointed to inquire into matters affecting the Currency of British West African Colonies and Protectorates*, October 1912. Cd. 6426. Hereafter referred to as the Emmott Report.
36. The Emmott Report wrongly claimed that colonial Governments did not expect much profit from the new scheme.
37. Emmott Report, p 20.
38. Emmott Report, p 23.
39. The amount of British silver absorbed between 1901 and 1910 by Britain was £5 million, West Africa £4.6 million and all colonies £7.4 million..
40. Emmott Report, pp 18, 24.
41. Emmott Report, p 26.
42. The evidence of the Chairman of the African Association (paragraph 1821), the representative of the Manchester Chamber of Commerce (paragraphs 2010–104) and the Manager of John Holt and Co.
43. Emmott Report, paragraphs 195–223.
44. Newlyn and Rowan (1954:42).
45. The representative of Manchester Chamber of Commerce threatened an uprising in Parliament if Britain did not fulfill its legal obligation to redeem British silver (paras 2010–104). See also the evidence of the Colonial Office Under–Secretary (Emmott Report, paragraph 103).
46. Evidence of the Colonial Office Under–Secretary (Emmott Report, paragraph 103).
47. Evidence of the Inspector of the Bank of British West Africa and the Colonial Office Under-Secretary.
48. Emmott Report, paragraph 194.
49. The Committee's response to the statements by the representative of the Manchester Chamber of Commerce (para.1963).
50. Emmott Report, paragraph 195.
51. The Treasury representative was more inclined to try and change the minds of other witnesses.
52. Evidence of the Assistant Under–Secretary in Charge of the Crown Colonies Division (Fiddes).
53. Evidence of representative of the Manchester Chamber of Commerce, paragraph 1887.
54. Evidence, paragraphs 74–85.
55. Evidence of the Inspector of the Bank of British West Africa, paragraph 974.
56. Evidence of the representative of the Manchester Chamber of Commerce (paragraphs 1997–99, 2048).
57. Evidence of the British Cotton–Growing Association (paragraph 2366).
58. Questions to the representative of the British Cotton Growing Association (paragraphs 2408, 2409). The Report also observed that there was a practice of 'hoarding' gold among the cattle traders of Coomasie and the cocoa growers of the Gold Coast.
59. Evidence of the representative of the African Association (paragraph 1729).
60. This was pointed out by both the Colonial Secretaries of Sierra Leone and Gold Coast (paragraphs 377–477) while the committee's questions to the British Cotton Growing Association representative also implied this (paragraph 2413).
61. While frugality or saving behaviour in metropolitan people is considered desirable and rational, yet when colonial natives did the same, it was usually described in a pejoratively manner as 'hoarding' and economically undesirable.

62. Colonial Office representative and the Colonial Secretary of the Gold Coast (paragraphs 377–78) and paragraph 506.
63. See Minutes of Evidence, paragraph 1196.
64. Questions to the representative of the London Chamber of Commerce (paragraph 1534) and the representative of the Liverpool Chamber of Commerce (paragraph 2276).
65. As was the Inspector of the Bank of British West Africa (paragraph 987).
66. The Chairman of Nigel Dempster and Company Limited thought that the Gold Coast Africans should not have this right although Europeans ought to (paragraph 2331). See also the evidence of the Inspector of the Bank of British West Africa (paragraph 987).
67. Evidence of the representative of the British Cotton Growing Association (paragraph 2409).
68. Report, paragraph 1700.
69. See questions to the Secretary of the Bank of Nigeria Limited, paragraph 1302.
70. Questions put to the Director of the Niger Company (paragraph 1623).
71. This was stated to the representative of the London Chamber of Commerce (paragraph 1581).
72. Minutes of Evidence, paragraph 1582.
73. Secretary of State for Colonies to the Acting Governor of East Africa Protectorate, 2 February 1911. [CO879/109/976: African No 976. Confidential. East Africa. Correspondence 2 February 1911 to 19 December 1913. Currency Questions in East Africa. Colonial Office, January 1915]. All following references will be to this file until otherwise stated.
74. Acting–Governor to Secretary of State, 6 February 1911.
75. British East Africa Corporation to the Colonial Office, 8 March 1911.
76. National Bank to Colonial Office, 29 March 1911.
77. Standard Bank of South Africa to Colonial Office, 30 March 1911.
78. British Cotton Growing Association to Colonial Office, 4 April 1911.
79. Colonial Office to Treasury, 8 July 1911.
80. The sovereign would not circulate if there was a cheaper currency available to the public, the rupee tokens.
81. The authorities apparently saw no contradictions in treating the British Indian rupee as a foreign coin which could be made into a subsidiary coin and ultimately demonetized. In India, the authorities had argued they were creating a gold standard coin adequately maintained by gold reserves.
82. The Committee was comprised of Abrahams, Bowring, Major, Read, Collins, Butler and Parkinson. Its Report was dated 20th October 1911.
83. Colonial Office to Treasury, 9 November 1911.
84. Treasury to Colonial Office, 29 December 1911.
85. Treasury to Colonial Office, 25 April 1912.
86. See the statements by the Standard Bank of South Africa and the Chief Secretary of Uganda.
87. Bowring cogently pointed out that with the initial ‘profits’ of coinage of a rupee being the nominal value of coins (16d.) less the silver inputs (8.5d.) and the cost of putting them into circulation, the profits would be further reduced given that all the profits could not be invested: some had to go into a specie reserve to redeem rupees; some had to go into a depreciation fund to allow for a fall in the value of securities; some had to go into a second depreciation fund to allow for a fall in the bullion price of silver; as well, there had to be

freight and management charges for strong rooms etc.; and it would take more than 16 years for the investments to compound to the amounts necessary to redeem every rupee, even if one assumed that silver had not by then depreciated severely. All to no avail.

88. The Secretary of State to the Governor of East Africa Protectorate, 12 December 1912.
89. Two centuries of British currency policy either for Britain or her colonies was based on discriminating between the two metals as full legal tender.
90. Colonial Office, 19th December 1913 referring to the Colonial Office Despatch of 10th October 1912.
91. Newlyn and Rowan (1954:57–64).
92. European currencies were demonetized by outright banning or ad valorem duties of 10 or 12.5%. In 1909, an ad valorem duty of 10% was imposed on all non-British silver imported into the colony (Howard 1978:127).
93. Hopkins (1970:105,107,127); Howard (1978:128–29).
94. Newlyn and Rowan (1954:43–44).
95. Newlyn and Rowan (1954:43–44); Hopkins (1970:107,127,128).
96. Yet she also pointed out that there was no danger of monetary inflation in Ghana because there was expanding African economic activity and therefore use of coin.
97. These banks in colonies would have been owned by metropolitan interests.
98. Howard (1978:28,33,35–36,60). From 1905 to 1914, gold to the value of £2.2 millions and one third of Ghana's exports. Howard also argued that one of the objectives of the formal takeover of Ghana and the Ashanti nation was the desire to directly mine gold instead of buying from the Africans.
99. Sayers (1976: 62). The Chamberlain Report did not recommend any major changes.
100. From 1884, Ceylon Currency Commissioners used to sell local paper currency against rupee drafts, but from 1903 began to issue them against sterling drafts as well (Bloomfield 1963:20).
101. Correspondence between the Colonial Office, Crown Agents and the Treasury between 7/4/1927 and 29/11/1928 (T160/715: Cyprus Currency).
102. This material has not been included here purely for reasons of space.
103. Rothbard comments critically on a fascinating array of prominent American economists such as Charles A. Conant, Professor Jeremiah W. Jenks, Edwin W. Kemmerer, Professor Edwin R. A. Seligman, J.B. Clark, as well their respective academic institutions, such as Cornell, Columbia, and Princeton. Rothbard notes that many of their plans was based on what the British and the Dutch were implementing in their Eastern colonies such as India and the Straits.
104. Review by Professor Raymond Dumett, Purdue University.

7 Conflicts over Colonial Sterling Reserves, Academic Criticisms and Imperial Defense, 1927-57

1. Around 1945, the London Boards had four members: Chairman was one of the current or retired Crown Agents; the Head of the appropriate Geographical Department in the Colonial Office; the Assistant Under-Secretary of State, Economic Division, Colonial Office (then Caine); and an adviser to the Bank of England (then Kershaw).

2. Abbott (1959:2–3). Abbott was an ex-Crown Agent.
3. *Report into the Inquiry into the Organization of the Crown Agents Office*. 1909.
4. Tignor, Robert L *W. Arthur Lewis and the Birth of Development Economics*. Princeton University Press.
5. Krozewski, Gerold (2001) *Money and the End of Empire. 1947–1958*. Palgrave Macmillan. While Krozewski accessed some of the same files and data as my thesis, he accessed some Treasury files, not read by me.
6. Hinds, Allister E. (2001) 'Imperial Policy and Colonial Sterling Balances 1943–1956'. Journal of Imperial and Colonial History, Vol.19, No.1. Greenwood Press.
7. Petter, Martin (1981) 'Sir Sidney Caine in the Colonial Office: a career in the making'.*Canadian Journal of History*; Apr 81, Vol. 16 Issue 1
8. Hinds, a West Indian, appeared not to be aware of the study by Ida Greaves from Barbados nor of the Colonial Office disagreements with West Indian economist, Sir W. Arthur Lewis.
9. This author's initial DPhil topic had been 'Money and banking in colonial and post-colonial Fiji' whose experience led to the successful questioning of an Empire wide phenomenon.
10. I have rearranged this last section to better integrate the excellent work of Krozewski (1991) and Hinds (1991) which appeared after my DPhil had been completed.
11. Triffin (1964:21).
12. Sayers (1976:428,539).
13. Friedman and Schwartz (1965:20); Cohen (1971:64).
14. Sayers (1976:389, 392–33).
15. Cairncross et al. (1983:4).
16. Sayers (1976, p 400; Howson, pp 4, 14.
17. Howson, pp 1, 4,5. Sayers (1976 p 487).
18. Howson, pp 5, 15–17. The initial motive of the EEA had been to prevent appreciation of the pound following its initial depreciation (Sayers 1976:426).
19. Sayers, 1976, p 440.
20. Howson, pp 1–14.
21. Sayers 1976 pp 449, 450, 491. Howson pp 42–43.
22. Sayers, 1976, pp 488, 490, 496–97.
23. Howson, p 31. Sayers, 1976: pp 491, 561, 657–58.
24. Sayers, 1976, pp 430–47.
25. Cohen, p.81.
26. Sayers, 1976, p 585.
27. Quoted in Sayers, 1976, p 587.
28. Dalton, pp 234–35.
29. Triffin, 1964, Table 12, p.72.
30. Feavearyear, p 397.
31. Polk (1956:58).
32. Johnson (1970:109,138,139).
33. Johnson (1970:140).
34. Polk (1956:61).
35. Dalton (1961:237–39,240).
36. Johnson (1970:131–35).
37. T160/715. Correspondence between Treasury (Philips) and Colonial Office (Fiddian), 25 April 1927.
38. T160/715. Colonial Office (Fiddian) to Treasury (Philips) 25 November 1927.

39. T160/715. Treasury (R.V.N. Hopkins) to Colonial Office, 23 December 1927.
40. T160/715. Treasury (Waley) to Colonial Office (Clauson), 22 and 25 September 1928.
41. T160/715. Colonial Office (Clauson) to Treasury (Waley), 5th October 1928.
42. T160/715. Crown Agents (Ezechiel) to Cyprus (Storrs), 29 November 1928.
43. T160/715. Colonial Office (Amery) 24th October 1928.
44. T160/378/F6586/127943. Clauson's memorandum (dated 13 February 1931) was accompanied by a supplementary Memo (also by Clauson), a Treasury Memorandum (dated 11 March 1931); and internal Minutes by Bewley, Waley, and Hawtrey.
45. Internal Minute by Bewley, the 4 March 1931 note by Waley to Leith-Ross, internal minute by Leith-Ross, the internal minute by Hawtrey on 9 March 1931, and Waley's 'personal' letter to the head of Barclays Bank, Caulcutt, who was then a member of the Colonial Office Currency Committee was actively formulating policies on Ceylon, Mauritius, Hong Kong, China and elsewhere.
46. King (1957:16,17,20,21).
47. CO83/201/2: Colonial Office Currency Committee: 'Treatment of Revenue of Colonial Currency Note Guarantee Funds'.
48. Minute by Caine, 14 February 1933. Quoted in Narsey (1986) from CO83/203/1.
49. CO852/1067/3.
50. Internal Treasury hand-written note from Hopkins to Waley [T160/544/F14939: East and West African and Palestine Currency Board Investments. 1934]. This file appeared to have missing documents.
51. Undated internal Treasury Memorandum, Young to Hopkins, but probably written between 6/12/34 and 11/12/34. The Crown Agents were forced to sell securities yielding 3.5% while holding money on deposit earning half a percent.
52. Treasury (RVN Hopkins) to Governor, Bank of England, 11 December 1934.
53. T160/1057/F597/1, 2. The debates involved Fisher (Bank of England), Waley (Treasury), Gerard Clauson and Sidney Caine from the Colonial Office.
54. CO852/156/6: Currency Miscellaneous: R. Burns to Colonial Office, 8 September 1938.
55. Internal minutes by Boyce and Clauson.
56. Crown Agents in a communication from Flood to Boyse, 12 June 1939, Colonial Office reference 15533/1/39.
57. CO852/360/16: Currency: Colonial Note Security Funds. Fisher (Bank of England) to Caine (Colonial Office), 5 August, 1942.
58. They suggested 10% in cash, 30% in short saleable securities and the remainder in redeemable securities.
59. CO852/360/16: Treasury to Colonial Office (Caine), 19 August 1942.
60. Colonial Office (Caine) to Bank of England, 6 August 1942; and Bank of England to Colonial Office, 8 August 1942.
61. Colonial Office (Caine) to Crown Agents, 15 August 1942; Crown Agents to Colonial Office, 4 September 1942. See Tables 5–6 in the Appendix.
62. Bank of England to Colonial Office, 7 October 1942; Crown Agents to Colonial Office, 22 October 1942. Specific instructions from Bahamas, Bermuda, Falklands, Fiji, Gibraltar, Mauritius, Seychelles, Ceylon and Malaya.
63. Crown Agents to Colonial Office (Caine), 29 December 1942.
64. CO852/360/42: Notes of a Meeting, 6 January 1943 to consider Investment Policy in connection with Currency Note Security Funds. Present were the Crown

Agents (Downie and Goldberg), the Colonial Office (Caine, Clauson and Forrest), the Treasury (Young), and the Bank of England (Fisher).

65. CO852/360/17: Crown Agents to Colonial Office (Caine), 23 January 1943; and Crown Agents to Colonial Office, 31 March 1943, CO reference 15184/42 and 43 for the discussion; Crown Agents to Colonial Office, August 1943.
66. Secretary of State to Governor, Jamaica, 8 May 1943. A similar letter was sent to Gibraltar 24 June 1943.
67. Colonial Office (Caine) to Treasury, 6 February 1945. There was a reference to Minutes of 25 August 1944, reference 15166/44.
68. CO852/541/13: Downie to Caine, 23 October 1944, and following correspondence.
69. CO852/541/11: Crown Agents to various Colonial Governments, 9 November 1945.
70. Reference to communication from Boyse to Flood, 15 September 1939 (CO reference 15536/2/39). The JCF had risen from a few million pounds to 45 million pounds by 1945.
71. Minute by Emanuel, 30 November 1945.
72. Reference to file 70311/30.
73. Minute, JBW to Caine.
74. Minute by Caine, 5 January 1946.
75. Caine argued that the JCF was itself a special kind of colonial bank, although the previous year he had been aware that the authorities had refused to treat the JCF as a financial institution.
76. Colonial Office (J.B.Williams) to Treasury (Winnifrith), 16 January 1946; Treasury (Winnifrith) to Colonial Office, 18 March 1946.
77. Minute by Emanuel and Williams' minute to Caine about Emanuel's recommendation.
78. Colonial Office (J.B.Williams) to Treasury (Winnifrith), 5 April 1946.
79. Treasury (Winnifrith) to Colonial Office (Williams), 13 April 1946.
80. Colonial Office (Caine) to Crown Agents (Downie), 23 April 1946.
81. Minute by Emanuel.
82. Colonial Office (Caine) to Treasury, 24 April 1946.
83. Treasury (Winnifrith) to Colonial Office (Caine), 27 May 1946.
84. Internal Colonial Office minute by Williams who had discussed the matter at No.10 with their Treasury opponent, Winnifrith, 29 June 1946.
85. Secret letter, Colonial Office (Caine) to Treasury (Winnifrith), 1 July 1946.
86. A meeting of 20 February 1946, Hinds (29–31) quoted from D. J. Morgan *Official History of Colonial Development*, p. 54.
87. CO852/682/3: Crown Agents (Goldburg) to Colonial Office (Emanuel), 4th March 1947. All following references shall be to this file, unless otherwise stated.
88. Governor (Seychelles) to Crown Agents, 22 December 1947. According to Section 8(3) of the Seychelles Currency Notes Ordinance (No 2 of 1936), the proportion of the Fund which was to be held in liquid form could be determined by the Governor in directions to the Crown Agents.
89. Crown Agents to Colonial Office, 2 January 1948.
90. Colonial Office (Sir Sidney Caine) to the Governor of Seychelles.
91. Sir Sylvester Clarke to Sir Sidney Caine, 15th April 1948.
92. The Crown Agents referred to Caine's letter of the 19th February 1947. Hong Kong had more than 40 million pounds, with most in Treasury Bills and JCF deposits.

93. Sir Sidney Caine to Follows, 6 April 1948.
94. Hong Kong Colonial Secretariat to Colonial Office, 29th April 1948.
95. They referred to Section 4 (4) of Ordinance 23 of 1938.
96. Crown Agents (Hicks) to Colonial Office (Bourdillon), 22 June 1948.
97. Telegram, Jamaican Government to Crown Agents, 6th July 1948, referred the Crown Agents to Section 7(3) of chapter 275 of Jamaica's currency laws.
98. Internal minute, Caine to Bourdillon, July 1948.
99. Internal minute, Bourdillon to Barnes, 6 August 1948.
100. Hinds (1991, p.29).
101. Crown Agents (Hicks) to Colonial Office (Bourdillon), 2 September 1948.
102. Colonial Office (Bourdillon) to Treasury (Pitblado), 30 September 1948, circulated to Bank of England and the Crown Agents.
103. Bank of England to Colonial Office, 14th October 1948; Colonial Office (Bourdillon) to Treasury (Powell), 25 October,1948.
104. Bank of England (Powell) to Colonial Office (Bourdillon, 10th November 1948.
105. Hulland (Colonial Office) to Bourdillon, 26 November 1948. Those also attending the meeting were Powell and Jackson (the Bank of England), Henley (Treasury) and Hicks (Crown Agents).
106. Internal Minute, Bourdillon to Hulland, 14th February 1949.
107. CO852/682/4. Crown Agents (Hicks) to Colonial Office (Hulland), 9 February 1949. All references will be from this file unless otherwise stated.
108. Treasury to Colonial Office, 22 February 1949; Colonial Office (Hulland) to the Crown Agents (Hicks), 24 February 1949.
109. Internal Colonial Office minute, 17 March 1949.
110. Crown Agents to Colonial Office, April 1949, concerning Hong Kong's reserves.; Colonial Office (Hulland) to Crown Agents (Hicks), 22 April, 1949.
111. Crown Agents (Hicks) to Colonial Office (Hulland), 21st May 1949; Colonial Office (Bourdillon) to Treasury (Young), 31st May, 1949.
112. Bank of England (Powell) to Colonial Office (Bourdillon), 1 July 1949.
113. CO852/682/4. The Memorandum was an Enclosure in a letter from the Treasury (Young) to Colonial Office (Hulland), 2 August 1949. A Draft of the Memorandum ('The Treatment of the Colonial Sterling Balances'), which was prepared between the Treasury and the Bank of England, was sent to the Colonial Office before being submitted to the Chancellor of the Exchequer.
114. Minute by Hulland to Barnes, 12 August 1949, and Barnes to Sir Poynton. It was recorded that imperial authorities had been telling the Americans that they did not issue instructions to colonies.
115. Bourdillon's letter No.15104/49 of the 19th July 1949.
116. Colonial Office (Hulland) to Crown Agents (Hicks), 9 November 1949.
117. Crown Agents to Colonial Office, Hulland, 12 June 1950.
118. Hulland to Henley, 29th June 1950.
119. Confidential Memorandum, 23 January 1956 (CO852/1576: Colonial Balance of Payments and Sterling Assets).
120. Treasury (France) to Colonial Office (Melville), 23 March 1956. (CO852/1577: Colonial Sterling Assets. All following references will be to this file, until otherwise stated).
121. The Treasury and the Bank of England had denied these same arguments when made by the Colonial Office and Crown Agents.
122. Minute of 12 April 1956.

123. By W. G. Wilson, 20 April 1956.
124. Bloomfield (1963:47,64–65); Cohen (1971:71).
125. Cohen (1971:76); Strange (1971:91).
126. Of these, only œ163 millions were obligations of the colonies and dominions, œ700 millions were obligations of the British Government and the rest of other UK instructions.
127. Polk (1956:199).
128. Polk (1956:164–65).
129. Polk (1956: tables, pp 191,197).
130. Polk (1956 Tables, pp 190–95).
131. Polk (1956:150–51).
132. Krozewski (2001), Table A.6.1, p. 125.
133. All references in this section, unless and until otherwise specified, will be to file CO852/358/23.
134. A prime modern example of this is the academic analysis of the causes of the Global Financial Crisis, after it happened.
135. Colonial Office (Caine) to Treasury (Keynes), 14 March 1943. Hinds (1991) has an account of the discussions between Caine and Keynes, which is almost identical with that here.
136. Treasury (Keynes) to Colonial Office (Caine), 18 May 1943.
137. Hinds (1991, p.29).
138. Colonial Office (Caine) to Perham, 29 June 1943.
139. T160/1289/F18937: Currency Boards, General Questions: Caine to Kershaw, 18 August 1943.
140. CO852/358/23: Kershaw to Caine, 3 September 1943.
141. T160/1289/F18937: Colonial Office (Caine) to Bank of England (Kershaw).
142. Colonial Office (Caine) to Bank of England (Kershaw), 20 September 1943.
143. CO852/358/23: Bank of England (Kershaw) to Colonial Office (Caine), 15 September 1943.
144. T160/1289/F18937: Kershaw (Bank of England) to Colonial Office (Caine), 22 September 1943.
145. Internal Memorandum, Caine to Sir Gater, 18 October 1943.
146. Among the members of the Sub-Committee were Clauson, Caine, Goodenough (representing Barclays, the largest colonial bank), Howitt, others from the Colonial Office, and Professors Plant and Robbins.
147. CO852/535/7: C.E.A.C (Finance)(45)10. 'Questions of Policy in Management of Colonial Currencies'.
148. CO852/535/7: Treasury memorandum dated 7 May 1945.
149. Present at the meeting (11 September 1945) were representatives from the Colonial Office Caine, Williams, Bourdillon), the Crown Agents, Treasury (Young), Bank of England (Kershaw), Barclays Bank (Goodenough), and academics (Professors Plant and Robbins).
150. Barclays had advised their branches in Trinidad, Jamaica and Cyprus to subscribe to Colonial Treasury Bills.
151. The Colonial Office gave the examples of Mauritius and Fiji who had been encouraged to plan for extensive developments only a half of which could possibly be financed under the Colonial Development and Welfare Act. For Mauritius, this could mean another 750,000 pounds available for development.
152. CO852/535/7: C.E.A.C. (Finance) (45) 20, 6 October 1945.

153. CO852/769/1: Barnes to Kershaw, 14 January 1949 and 12 April 1949. Professor Plant had been a member of the Colonial Office Currency Sub-Committee, which in 1945 had assessed Mars' criticisms.
154. Minute by P. Deane, Secretary to the Colonial Economic Research Committee.
155. Greaves to Colonial Office (Barnes), 19 April 1949. Greaves was a citizen of Barbados.
156. Greaves to Colonial Office, 18 November 1949 (CO852/1081/4).
157. CO852/769/1: Emanuel to Bourdillon; and internal minute, 4 January 1950. Greaves' observations on her West Indies experience was thought to be uninformative, petulant, offensive in tone and over-critical of the West Indian colonial officials.
158. CO852/1081/2: Greaves to Colonial Office, 17 February 1950.
159. Greaves declared that the works by Mars and Bower (also in Perham, 1947) were irrelevant, inaccurate, lacking in objectivity and examples of political agitation rather than serious economic analysis.
160. Barnes to C.E.R.C., 8 March 1950; CO852/1081/2: Barnes to Foot, Armitage, Beresford-Stooke, 21 March 1950. The colonies were warned that Greaves might be abrasive.
161. CO852/1081/4: Bank of England (Kershaw) to Barnes, 25 May 1950 and 13 June 1950.
162. Greaves inaccurately claimed 'The early colonies used the world's money when this was gold and silver, and sterling when this was the world's money'.
163. CO852/1081/3: Greaves to Barnes, 12 June 1950.
164. CO852/1081/3: Bourdillon to Barnes.
165. Colonial Office (Barnes) to Greaves, 15 July, 1950.
166. CO852/1081/4: Sayers to Bourdillon, 15 September, 1950 and communication from Barnes, a supervisor.
167. Meeting with her Supervisory Committee, 19 October, 1950.
168. CO852/1081/4: Colonial Office (Bourdillon) to Sayers and Kershaw, 21 November 1950.
169. This work was eventually published in 1954 as *Money and Banking in British Colonial Africa,* by Newlyn and Rowan.
170. Bourdillon to Kershaw and Sayers, 13 December 1950 and Greaves to Colonial Office (Bourdillon), 3 January 1951.
171. Colonial Office (Bourdillon) to Greaves, 2 January 1951.
172. CO852/1081/5: Sayers to Bourdillon, 24 February 1951.
173. Greaves expressed surprise that Mars' 'dogmatic tissue of misconceptions' should come from an academic source and that Penelope Bower's contribution ('Balance of Payments in Nigeria in 1936') should be allowed at a time of paper shortage.
174. CO852/1081/5: Bank of England (Kershaw) to Colonial Office.
175. Bank of England (Kershaw) to Colonial Office (Barnes).
176. CO852/1081/5: Colonial Office (Barnes) to Greaves, 20 October 1951.
177. T160/1289/F18937: Kershaw to Young, Memorandum on the Rates of Commission and Redemption of Currency. While not dated, this memo was filed between correspondence dated August 1943 and February 1944, and signed by Kershaw.
178. T160/1289/F18937: Colonial Office (Caine) to Treasury (Young), 7 February 1944.
179. CO852/1081/6: internal minute of 27 November 1951.

180. *Colonial Monetary Conditions*, Monograph No.10 of the Colonial Research Studies. The Colonial Economic Research Committee sent review copies to the Editors of the *Economic Journal*, *Economics*, the *Manchester School* and others.
181. CO852/1081/6: Hulland to Barnes.
182. Internal minute by Emanuel, 3 April 1954 (CO852/1576: Colonial Balance of Payments and Sterling Assets). The Colonial Office was commenting on her article, 'Should Colonial Governments have Overseas Assets', West Africa, 27 March 1954.
183. Colonial Office (Sir A.H. Poynton) to Hazlewood (Institute of Colonial Studies, Oxford), 10 January 1953 (CO852/1432: Colonial Balance of Payments: general implications) (all following references to this file until otherwise stated). The broadcast by Hazlewood, who was then at the Institute of Colonial Studies (Oxford), was entitled 'Helping the Colonies'.
184. CO852/1576. Memo to Secretary of State, 3 Feb. 1954.
185. Gerard Clauson had been Sidney Caine's immediate supervisor and involved in most imperial decisions on colonial currency policies.
186. The Colonial Office supplied the statistics for the eventual monograph, and publicized its distribution in the colonies and universities.
187. *Memorandum on the Sterling Assets of the British Colonies*, Col. No. 298, H.M.S.O. 1953.
188. In CO852/1576 (Colonial Balance of Payments and Sterling Assets) there was a cutting of a letter from Henry Collins to The New Statemen, apparently quoting from the Economist.
189. Note by A.Emanuel, 23 September 1953 (CO852/1433: Proposed White Paper on Colonial Balance of Payments and Sterling Assets).
190. Krozewski (2001), p.126.
191. 'Death of a Red Herring' by W.A.M. in West Africa, 2 January, 1954 (newspaper clipping in CO852/1433).
192. CO852/1576. St. Vincent saw no need to publicize the document (communication to Colonial Office, 3 February 1954).
193. CO852/1576. Reply to telegram to Colonial Office, 1 February 1954.
194. Robert L. Tignor (2005) *Arthur Lewis and the Birth of Development Economics*.
195. An interesting area of research would be Caine's appointment as the Vice Chancellor of the University of Malaya and later as Head of the London School of Economics.
196. Petter notes that the file on Caine's Hong Kong appointment has 'unfortunately been destroyed, and the precise reasons for the appointment are not clear'. Petter refers to the Hong Kong Register, CO 349/32 (1936–37). Minute of 2 Feb. 1937 in CO 866/15/1007/1937.
197. Keynes to Caine, 10 March 1941 in CO 852/482/18836/1941 (from Petter).
198. Petter, p.70.
199. Quoted in Petter from Caine's Memorandum 'Thoughts on Reconstruction in the Colonial Empire'
200. Tignor, p.47.
201. Lewis joined the League of Coloured Persons to protest at the British Government's barriers to the hiring of 'persons of colour' creating further difficulties for the Colonial Office whose advertisements apparently explicitly restricted employment to only 'Europeans'.
202. Caine was a protege of Clauson, his superior in the Colonial Office.
203. Tignor, pp.57–58.

204. Tignor, p. 58.
205. Tignor's reference was PRO CO 990/2. The Memo was dated November 1943.
206. Tignor, p.60.
207. Tignor, p.64.
208. Lewis would later become the chief economic adviser to Kwame Nkrumah in Ghana, and his public career came to an end when he tried to save the federation of the West Indies in the 1960s (Tignor, p.60).
209. Tignor footnotes that the Lewis' paper was titled 'Colonial Economic Development' Fabian Colonial Bureau Papers, 1945, mss. Brit. Emp. S365.
210. Tignor, pp.66, 67.
211. Balogh (1959:25). Balogh would have been far more scathing had he been aware of the material in this book, regarding Caine's position and role within the Colonial Office for the previous two decades, on colonial currency reserves, and the role R. S. Sayers and the London School of Economics in Greaves' study.
212. There are a few weaknesses in this otherwise excellent study. Krozewski wrongly thought (p. 126) that the British policy makers only became aware of the levels of certain sterling funds and the regional distribution after the 'Littler Exercise in 1955–56'; that tthe Colonial Office was more conservative than the Treasury and the Bank of England; that the Colonial Office lacked an understanding of the macroeconomic issues involved (pp.122–23); and that (p.53) the Crown Agents followed an investment policy to maximize income while maintaining the desired liquidity. These weaknesses are entirely due to the limitation of his study to the narrow period 1947 to 1958, by which time the Treasury and Bank of England had ensured that the Colonial Office, led by a sympathetic Sidney Caine as Head of the Economic Division, had suppressed those sympathetic to colonial development, both within the Colonial Office and the Crown Agents. This emphasizes the critical importance of the proper historical context for any such analyses.
213. Krozewski (2001), pp.9–10, 15–18, 25.
214. Krozewski (2001) p.56.
215. Krozewski p.27 and Fig. 3.10.
216. Krozewski (2001) Fig. 3.9, p.48.
217. Krozewski (2001) p.95.
218. Krozewski (2001), p.97.
219. Quoted in David Meredith, 'The Colonial Problem of the 1930s', [EH/76/8], Institute of Commonwealth Studies.
220. Krozewski (2001) p.16.

8 Reassessment of the Currency Board Debate

1. These comparable possibilities, while fascinating, are not explored in this book.
2. The cover could be below 100% if the currency board had to bear the costs of destroying or redeeming previous currencies, if the silver reserves or securities depreciated.
3. Hopkins (1970:102); Drake (1969:35, 55); Drake (1969:35).
4. Caine (1949:4,52–53).
5. Caine (1958:25).
6. Mars (1948:178,179).
7. Greaves (1953a:47).

8. Newlyn and Rowan (1954:42–43).
9. Thomas (1965:15).
10. Mars (1948:188).
11. Mars (1948:206).
12. Hazlewood (1954:309).
13. Mars (1948:203) pointed out that the cost of government borrowing between 1919 and 1935 had varied between 2.7% and 17.4%.
14. Mars (1948:205–06).
15. Greaves (1953a:18); Newlyn and Rowan (1954); Hazlewood (1954). Yet Greaves had pointed out to the Colonial Office in 1949, that the resources released for Gold Coast would be twice the colony's public debt, while for Nigeria it would be two-thirds.
16. Loxley (1965).
17. Greaves (1953a:8).
18. Caine (1958).
19. Greaves (1953a), Caine (1958), King (1955).
20. Hazlewood (1952:942–43 and 1954:294–95).
21. Drake (1969:32).
22. Table 7 in Drake (1966:33).
23. Mars (1948:190).
24. Mars (1948:194) estimated that Nigeria had to sacrifice some 10 to 13% of the national income every three years to obtain the necessary *increments* to the local currency.
25. Exter (1949), 'Analyst' (1953), Drake (1980).
26. Newlyn and Rowan (1954:196).
27. The discussion in the following two paragraphs is well covered in Drake (1969:41–43).
28. See Hazlewood (1954), Newlyn and Rowan (1954), Drake (1980). Conversely, balance of payments deficits must ultimately lead to contraction of bank deposits.
29. Drake (1966:39) found that with the early Malayan banks making few local advances the prime factor in money creation had been 'the balance of international receipts and payments', a point also made by Wilson (1957).
30. Mars (1948); Newlyn and Rowan (1954:196).
31. Howard (1978:139–40).
32. Drake points out that in Malaya after the 1950s, bank lending broke the classical link between money supply and international payments, by financing domestic expenditure and imports without any corresponding rise in exports.
33. Mars (1948:194).
34. 'Analyst' (1953).
35. Hazlewood (1954:302).
36. Hazlewood (1954:303), quoting Greaves (1953a:46–47).
37. If the Fisher equation held (MV=PT) then if T (transactions) increased without a corresponding surplus in the balance of payments, then M (money supply) could not be increased and so P had to fall.
38. In reality, there was little flexibility in wages.
39. Hazlewood (1952:438)
40. 'Analyst' (1953:50); Exter (1949:4). The Trevor Report (1951) for the Gold Coast found that Africans were at a disadvantage relative to the Europeans, Levantine and Asiatic communities.

41. Hazlewood (1954:306).
42. Hazlewood (1954:307).
43. Hilferding (1981:440), quoted in Brewer (1980:75,91).
44. This would seem to emphasize the essential differences between state and bank controlled money, and state monopoly over money as opposed to open mints (or easy banks) where the public's savings (ornaments or other assets) could be converted into money.
45. See the Secret Memorandum in PRO file T160/550/F7219/1: 'Empire Currency and Exchange'.
46. Wilson (1957) concluded, after some simplifying assumptions, that 'the total contraction of the United Kingdom money supply in case of a deficit with the United States would be somewhere between a minimum of 100% and a maximum of 300% of the deficit, as compared with a minimum of 33% and a maximum of 100% in the case of a deficit with Malaya'.
47. In the first round the domestic money supply would be increased immediately. If the holders of dollars wanted sterling, the Currency Board would have to sell sterling securities with reduction of sterling cover, while there would be no change in the money supply either in Malaya or UK compared to the situation before the currency expanded. If the money holders wanted to hold Malayan dollars, the Malayan money supply would stay increased accordingly without any change in the UK money supply.
48. Polak (1957) had pointed out that was predicated on the assumption that the additional credit would not result in increased exports or reduced imports.
49. Nabudere (1982:73).
50. Mars documented that in Lagos between 1926 and 1938, while export prices declined by more than half, import prices by a third, and localized currency circulation fell by a fifth, the prices of domestically produced consumers' goods declined by more than two-thirds.
51. Drake linked this short run effect to the deflationary bias argument over the long run.
52. Drake (1966:56) 'Analyst' (1953).
53. Mars had made the constructive suggestions that the authorities could vary deposit money indirectly through cash ratios or directly by specifying quantitative amounts; be lender of last resort to temporarily non-liquid but otherwise sound banks; enforce lending rates; stabilize booms and recessions by expanding or contracting money supply; create gilt-edged securities for drawing out hoards; advise government on optimal exchange rates at times of balance of payments crisis; have power to regulate imports and long-term capital; and establish financial institutions to persuade individuals to invest in colonial securities.
54. Balogh referred to King (1955:721).
55. Authored by Sir Sidney Caine and G.M. Watson (1957).
56. Balogh (1959:24).
57. Caine (1958:27). Yet Caine had also been informed by Keynes that the system led to a strong under-estimation of the colonies' financial strength, and had himself in the Colonial Office discouraged the idea that colonies should borrow for development.
58. Caine (1958:28–31).
59. Caine (1958:27).
60. Greaves (1954).

61. As early as the 1860s, colonies had been charged a prohibitive interest on loans from each other through the Crown Agents, not for the sake of revenue but 'to discourage the practice' (Abbott, pp 22–24).
62. Abbott (1955:7,12).
63. Hazlewood (1953–54:34).
64. Kubicek (1969:90).
65. Meredith, David. 'The Colonial Problem of the 1930s' (EH/76/8).Minute by Moore, 19 June 1939 (quoted in Meredith from C0852/250/15606/2/).
66. As the experience of Fiji shows.
67. Leys (1941:92–93) and Narsey (1986).
68. Constantine (1984:300–05,259).
69. King (1955:719).
70. Greaves (1951:434–36). The arguments were repeated in Greaves (1953a, 1953b, 1954).
71. See the *Round Table* (1947:250–55).
72. Sir Basil Blackett over the years served as a Treasury expert; Secretary to Committees of Inquiry into colonial currency policy; Currency Adviser to colonies; Chairman of Colonial Development Advisory Committee; and Director of the Bank of England, Cable and Wireless Ltd., de Beers Ltd. and several others.
73. A new chapter written on the advice of early readers has been excluded partly to reduce the book length and partly because the content was not central to the main themes of this book.
74. Walters was a personal adviser to British Prime Minister Margaret Thatcher who recommended a knighthood for his contributions.
75. Hanke (2002b) later accused the IMF of deliberate deception to achieve a politically inspired regime change.
76. 'Currency Boards and Chinese Banking Development in pre-WWII South East Asia: Malaya and the Philippines'.

9 Currency and Monetary Policies in White Settler Colonies and Dominions: Superior Alternatives to Colonies

1. Colonies such as Rhodesia, Kenya, and New Foundland, while dominated politically by white settlers, were not formally recognized as 'dominions' with 'self-government' status.
2. The 'dominion' term faded out of use former colonies dominated by non-whites, joined the Commonwealth as independent countries.
3. This chapter was accordingly written on the recommendation of referees to the publishers, and involved writing new material as well as consolidating relevant material from the original DPhil thesis.
4. Johnson (2003), p. 63.
5. The fact that civil servants in the Colonial Office were able to make critical decisions on the colonial empire often without the knowledge of the British Government or British Parliament is worthy of further research, especially in regard to currency and monetary matters.
6. See chapter 1 of Nussbaum (1957), and especially Galbraith (1975:17–25).
7. The following account is based on Lester (1970), Chalmers (1893), Nussbaum (1957) and Galbraith (1975).

8. In 1718, for instance, while Britain exported £850,000 worth to America, she imported £2,600,000 including gold and silver (Chalmers, 1893, p 5).
9. Chalmers (1893:4–7,13).
10. Massachusetts in 1652 set up a mint for coining 'pine tree' shillings which had 22.5% less silver than that contained in sterling shillings. The Mint was closed down after 32 years (Lester 1970:20).
11. Rothbard (2002:52) argues that it was the issue of fiat paper money that created the shortage of specie currency, not the other way around.
12. It may be noted that the 1990s advocacy of the currency board system was nearly always a response to unstable economies and excessive issue of money, leading to uncontrolled inflation.
13. Rothbard believed that money must always be 'hard' money redeemable into specie on demand, and that the failure of convertibility was a fraud on the people.
14. Ibid.
15. 'The South African Commercial Banks' by A.C.L. Day in Sayers (1954).
16. I am grateful to Professor Larry Neal for pointing me to this important study on which this section depends heavily.
17. In microeconomics, this would be the area of the triangle representing consumer surplus.
18. The 'subjection test statistic' is the product of the amount of external capital received by the colony and the interest rate reduction from being a colony. The interest rate reduction is calculated by simulating the interest rate that would have been paid by the colony, had it had the same fundamentals after being freed, using the pricing model identified in Accominotti *et al.* (2008) where borrowing costs for sovereign countries are a function of fundamentals.
19. This historical reality is a sharp contrast to political slogans in some dominions like Australia and developing countries under the sway of IMF, that their governments must strive for 'balanced budgets'.
20. Australia, New Zealand, and Canada.
21. Argentina, Brazil, and Chile.
22. India and Ceylon.
23. All used London as their principal conduit of foreign funding.
24. The section here draws heavily from Schenk (2010), pages 292–305.

10 Conclusion: Implications for Theories of Imperialism, Underdevelopment and Money

1. In *British Empire*, edited by P. J. Marshall (1996).
2. See for example, *Economics* by Douglas McTaggart, Christopher Findlay and Michael Parkin. Pearson, Education Australia. 2007. pp. 618–19.
3. Helleiner, E., 'The monetary dimensions of colonialism: why did imperial powers create currency blocks?', *Geopolitics*, 7 (2002), pp. 5–30.
4. The methodology of Rothgard and von Mises is summarised in the Introduction to Rothgard (2002: 1–43) written by Joseph T. Salerno.
5. Rothgard thought that the Bank of the United States (akin to a modern day central bank) was designed to justify the inflationary issues of inconvertible paper money and its destruction was not undesirable.

6. This study was part of Cambridge Imperial and Post-Colonial Studies Series edited by the eminent A. G. Hopkins.
7. Chalmers, Hawtrey, Blackett, and Mowatt to name just a few, all received knighthoods. Nearly all Secretaries of State for Colonies and for India received imperial honors.
8. Helleiner (2003). Preface.
9. Quoted in Roxborough (1979: 57).
10. Willoughby (1987: 7,54).
11. 'New Directions in the Marxian Theory of Class and Exploitation,' *Politics and Society, II*, 1982, pp 253–88), quoted by Willoughby (1986: 47).
12. See Palme Dutt (1957), Barratt Brown (1970), Brett (1973), Alavi (1982), Bagchi (1982), and Griffin and Gurley (1985).
13. Fieldhouse (1983, Preface) presents his study as a 'viable alternative to the Marxist view of modern colonialism' as the 'root of "dependency" and poverty in "the third world".'
14. Warren (1980: 149) acknowledged the Marxist argument that the colonial economy 'often contained a legal framework for monetary policy, central banking, and the holding of foreign exchange reserves that constituted barriers to economic development in a number of countries'.
15. Fieldhouse (1983: 69,77).
16. Hayek's (1976) call for the denationalization of money, does not pay sufficient attention to the forces which led to the 'nationalization' of money in the first place.
17. Quoted in Barratt Brown (1974: 31).
18. I have wondered what happened to the sterling reserves held in the name of the Palestine Currency Board.
19. *The Color Bar in East Africa*. The Hogarth Press, 1941, p. 124.
20. The United States circulated the silver peso in the Philippines, Germany circulated silver rupees in her African colonies, while France had her silver francs.
21. See PRO file T160/481/F12809/2: British Empire Currency. Memo by Eustace-Davis.
22. Book review by Delphine Strauss.
23. Patinkin's (1965) analysis treats money symmetrically with all other commodities.
24. Keynes (1935: 16) in Bradby, p 47. Keynes thought that the English gold standard was a 'managed money' profitable to both the Treasury and the Bank of England.
25. Keynes (1935: 7).

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