EAST AFR PROT
UGANDA
8812

528

C.O.
8812
Recd 19 FEB 18

Treasury

1918

19 Feb.

Last previous Paper.
S.O. 7550

Funds for payment of Carriers

States views on proposals & suggests that cost might be met by release of Coin from Note Currency Fund. Urges that steps indicated be taken to minimise consequential currency inflation in the event of C.O. proposal being proceeded with. Necessary Orders in Council are being drafted for Consn

~~Mr Collier~~
~~Sir H Read~~ Sir G. Fiddes

Also [illegible]/8822

The Treasury propose that we should pay the carriers out of the Currency Note reserve, supplementing that reserve by [illegible] notes if necessary.

The silver reserve is Rs 36½ lakhs according to the last return I can find so that it would not stand three months outgoings. We cannot be at all sure that the silver would come back as quickly as everyone seems to agree the [illegible] notes would do, and the Govt might not be able to avoid exhausting the silver reserve altogether. I think the [illegible] proposal is far more [illegible]

To C.A. 23 Feb 18
To C.O. [illegible]
Copy [illegible]

S.O. [illegible]

Last subsequent Paper.
[illegible] 8822

temporary emergency. It does not necessarily mean any greater inflation of currency (and inflation is unavoidable when scores of thousands of natives have earned wages for the first time).

Further, the ~~[illegible]~~ 95 lakhs of local currency notes is in itself ~~[illegible]~~ a case of war inflation, & we have for a long time been looking forward with some apprehension to a quantity of these notes being presented for exchange. I would very much rather keep the extra reserve for its proper purpose.

I think we must press the Treasury again – readily agreeing to their conditions (a) (b) & (c) and, I think, to the view expressed in the penultimate para.?

Send a copy of 8822, with the S.O. Board to the C.A.

~~[illegible]~~ 80 lakhs of rupee notes approved, & tell the C.A. to ship them in 2 lots of 40 lakhs each – to insure against all risks except total loss.

[illegible] [illegible] of [illegible] by [illegible] out at the head of the draft [illegible] the Treasury [illegible] 7550 [illegible]

[illegible] [illegible] [illegible] on [illegible] [illegible], but as we are [illegible] the [illegible]

Mr Collins

Para 9 of draft & Treasury.

Para 9 of draft. I should

If it is at all practicable I should prefer that the Govt should buy the [illegible] notes from the banks (paying for them in London if necessary) and that the Currency Board should keep its note reserve intact (except for ordinary redemption) until there is a [illegible] it [illegible] be repaid from the Govt.

We shall get our funds (or [illegible]) in London and of these [illegible] are [illegible] to the [illegible] [illegible] of the Post, the Board should not object to repay [illegible].

For your consideration. I am slippery ground. [illegible] 22/2/[illegible]

Mr. Bottomley

I think that you will have to support the Banks by giving them rupees from your note reserve against their surplus I R notes. The notes will be legal tender and will be freely accepted by the Govt but they will only be cashable by the Banks. They will accumulate in the Banks and if the Banks wd accept in exchange for their certificates for payment in India or payment @ 1/4 in London they should be so paid. To this extent currency will not be required in E Africa. I anticipate that the [illegible] will be however [illegible] difficulty will be that the Banks will have too many notes & too few rupees for local use and if you don't [illegible] by giving rupees for notes there is a danger that they will have to cease cashing notes. I wd suggest that in the [illegible] first instance you shd fix a maximum of 15 lacs, though you may have to spring a bit on this later. The Banks shd not know how far you are prepared to go, only that you are ready to help them as far as possible, and the rupees shd only be supplied under pressure when remittance to India or London cannot be accepted by the Banks.

If the Currency Cos were to buy from the Govt. what would not otherwise be issued, there wd be unnecessary inflation and the fact that the rupees were in Govt. hands might be immaterial. It is true that the Cos will require the notes to stop a run, but if they have not them [illegible] from the Banks they shd borrow instead and [illegible] from the Govt. or if they must pay for them in Rs the [illegible] be earmarked [illegible] for return to the Cos when they [illegible]

[illegible] Rs. allowed to the Govt. [illegible]

I think it would be better to follow E.A.D. further [illegible] [illegible] connect [illegible]]

B.C.B. 20/7/18

I agree generally with Mr. Bottomley.

It is of course impossible to avoid a temporar[illegible] inflation of the currency. All we can do is to restric[illegible] it as far as possible. These payments have got to be made - in something. The inflation would be no less if they were made in rupees. As we have already [illegible] foreseen, there will be a tendency for the 1 rupee notes to drive rupees out of the country. This we can only cope with by the strictest Customs precautions. We cannot cope with hoarding. Whether hoarding of rupees would be greater through an inflation caused by notes than through an inflation caused by rupees - melting down and exportation being excluded - I cannot say. But if to any extent they hoarded notes it would be much better than hoarding so many rupees.

The Treasury alternative is to pay off the [illegible] carriers from the rupees in our note reserve, [illegible] is exhausted. This strikes me as a breach of faith with our own note holders since we shall part with all our coin reserved for cashing their notes. There is the further grave disadvantage that subsequent payments to carriers would necessarily be in 1 rupee notes which would cause great dissatisfaction. It seems obvious that, as we always intended, we should treat all alike [illegible] as we mean to go on. There is the immense ad[illegible] the Banks under Mr. Bottomley's arrangement are prepare[illegible] to co-operate with us [illegible] their rupee [illegible] ushering the 1 rupee note from the beginning. [illegible] the Treasury scheme is to dispense with this vital co-operation and head for certain inconvertibility both of our own notes and of the Indian.

We cannot I think accept the pen ltimate paragraph of this letter. That paragraph taken together with the Treasury proposal generally shows how completely Their Lordships have failed to grasp our arrangement. We propose that 1 rupee notes should be held to a certain extent in our Note Reserve. It is clear I think that these 1 rupee notes can only be taken into our reserve in exchange for rupees in our reserve. That is, we shall support the Banks by taking 1 rupee notes from them and giving them rupees from our reserve to the full extent compatible with maintaining a minimum specie reserve against our own notes. Our remaining specie reserve must only be used for cashing our notes within normal limits. If a run on our notes takes place we must stop it, and we can only stop it by giving out the 1 rupee notes that will be in our reserve. Here as in the case of the Straits the Treasury cannot distinguish between maintaining normal convertibility and allowing the whole of the coin reserve to be swept away through panic, our theory being that it is better to stop a run at once (with silver still in our till) than to pull it up short when fully [illegible] (with no silver in our till).

As regards the other Treasury conditions

(a) We so intend.

(b) it could be accepted but not i.

We may agree [illegible] the only [illegible] [illegible] shall be three times [illegible] [illegible]

(c) Agreed.

The point at the cross in Mr. Bottomley's minute may be of very great importance.

27/2/18

Any reply to this letter should be addressed to—
The Secretary,
Treasury,
Whitehall, London, S.W. 1.
and the following number quoted.

TREASURY CHAMBERS

532

19 February, 1918.

4599
18.

C.O.
8812
Recd
Regd 19 FEB 18

Sir,

I have laid before the Lords Commissioners of His Majesty's Treasury Mr. Read's letter of the 1st instant (3624/1918) and its enclosures relative to the provision of currency in East Africa for paying off in East Africa and Uganda carriers recruited in those Protectorates for service with the Military forces.

Mr. Secretary Long proposes that for this purpose Indian 1 Rupee Notes up to an approximate total of 80 lakhs should be acquired from the Indian Government and made legal tender in East Africa Protectorate and Uganda.

This expedient is in Their Lordships' opinion in principle open to much the same objections as an emergency issue of a local 1 rupee note and to some others peculiar to itself. It has, however, the practical advantage - a not inconsiderable advantage in present conditions-of giving the Protectorate potential credit in India in exchange for a sterling payment.

My Lords understand that the existing note issue in East Africa is approximately 95 lakhs of rupees (against which there is a coin reserve of roughly one half), so that the present proposal may mean nearly doubling the paper currency of the country while, as payment is to be made in the United Kingdom or India, there will be no corresponding reduction in the metallic currency of the country. It will be obvious that such a step is likely to have one of two effects or

possibly

The Under Secretary of State,
Colonial Office.

possibly both successively. Either there will result a very considerable currency inflation, the effect of which may be serious when the present transitory need has passed and the currency requirements of the country revert to normal; or the paper rupee will drive the silver rupee out of circulation. This would be particularly easy in a country like East Africa where Customs restrictions on silver exports must be difficult to enforce, and where the possibilities of internal hoarding must be unlimited, and might very likely follow an initial inflation.

My Lords assume that Mr. Long is satisfied that these risks must in present circumstances be regarded as unavoidable; but They would be glad to learn whether in his opinion the case would not be sufficiently met by the release of coin from the Note Guarantee Fund (where it might be replaced by 1 Rupee Notes which could in case of emergency be temporarily declared legal tender in payment of the local Currency Notes as proposed). This alternative would seem to involve considerably less disturbance of the normal currency system than that proposed and on this ground in Their opinion would be preferable.

If the payments to carriers are to extend over eight months, and the amounts paid out are likely to return fairly quickly through the Banks or the Hut Tax collections, it might be that this alternative would be sufficient and that it would not in fact be necessary to put the 1 Rupee notes into circulation at all; or such an arrangement might be tried in the first place, the other alternative being kept in reserve until its necessity were demonstrated.

If Mr. Long considers it necessary to proceed with the scheme outlined in the correspondence under consideration, My Lords would strongly urge that every effort should be made to minimise the consequential inflation (a) by restricting, as is proposed, the actual issue of notes, within the narrowest compass, (b) by issuing notes only to natives recruited in East Africa Protectorate or Uganda and not to natives of other Protectorates who may be passing through East Africa, and (c) by taking every possible step to call in the notes issued as soon as may be.

My Lords presume that in event of a run on the Currency Board the coin portion of the Note Guarantee Fund would in this case be used to the full extent before recourse was had to payment in 1 Rupee Notes.

In order to avoid delay My Lords are causing the necessary Orders in Council to be drafted for consideration.

I am,

Sir,

Your obedient Servant,

[signature]

8812/18

535

Downing Street,

23 February 1918.

PRESSING.

Answd 11250

DRAFT.

Sec., to

the Treasury

MINUTE.

Mr. Bottomley Feb. 22

Mr.

Mr. Collins 23

WCD 23

Mr. Grindle.

Mr. Lambert.

Mr. Read.

Sir G. Fiddes.

Mr. Hewins.

Mr. Long

minute attached

3 drafts.

Copy for Secy of ...

Sir,

I am etc., to acknowledge the receipt of your letter 3999/18 of the 19th of February on the subject of the provision of currency in E.Africa for paying off carriers after service with the military forces.

2. Mr. Long trusts that the Lords Commissioners of the Treasury will not press their suggestion that the funds for paying off the carriers should be found in the first instance from the silver reserve in the hands of the Currency Board. A large part of the Note Guarantee Reserve Fund is in gold and the last available ~~return of the silver reserve~~ was less than 36 lakhs. The local note issue ~~has accordingly~~ largely increased during the

military operations and it is possible at any moment that these notes will be presented in large quantities to the ~~Guarantee~~ Currency Board for repayment in silver. It is important, therefore, that the silver reserve should be maintained intact as far as possible ~~and that amount does not appear to be~~

3 It is doubtful whether the present amount of the reserve is in any case sufficiently large for the purpose of payment to the carriers.

4. It seems to be generally agreed that the 1 rupee currency notes issued to carriers will rapidly come back into the hands of the Banks or the Government, but it is not ~~[illegible]~~ so certain that silver if paid to the carriers, would come back equally quickly, and the Government might well be unable to avoid exhausting the silver reserve completely.

4. The employment of the reserve for payment to carriers seems to Mr. Long to involve a breach of faith to the holders of the Protectorate currency notes, and there is a further serious disadvantage

~~the seriousness of which cannot be overestimated~~, that as soon as the silver reserve was exhausted either for payment to carriers alone, or for this purpose and also for meeting local currency notes, subsequent payments to carriers would necessarily be made in 1 rupee notes. To avoid the possibility of discontent, it ~~is~~ is ~~extremely~~ important to secure that all carriers shall be paid in the same form of currency.

5. In addition, it has been possible, with some difficulty, to ensure the co-operation of the three banks concerned in using their rupee resources for cashing the 1 rupee note from the beginning. Under the proposal contained in your letter this co-operation would be lost and the subsequent issue of the notes would probably lead both to the rupee notes and the local currency notes being in practice inconvertible.

6. It

confident that Their Lordships will agree to the adoption of the scheme previously set before them. With regard to the conditions which Their Lordships attach to the adoption of this scheme -

(a) It is intended to restrict the number of notes issued within the narrowest limits.

(b) Mr. Long agrees that the only carriers to be paid off in rupee notes should be those whose homes are in the E.A.P. and Uganda.

(c) He will ensure that the notes issued will be withdrawn from circulation as soon as they can be dispensed with.

9. With regard however to the penultimate paragraph of your letter Mr. Long considers that it would be a serious mistake to insist that in the event of a run on the Currency Board the coin portion of the Note Guarantee Fund should be used to the fullest extent before recourse is made to repayment in 1 rupee notes. The notes can only be taken into reserve in exchange

for

at the earliest possible date.

I am,

etc.

8812/18

539

Downing Street,
23 February 1918.

PRESSING.

DRAFT.

[illegible] C.A. for the Colonies.

MINUTE.

Mr. Bottomley. Feb 22.
Mr.
Mr.
Mr. Grindle.
Mr. Lambert.
Mr. Read.
Sir G. Fiddes.
Mr. Hewins.
Mr. Long.

Gentlemen,

I am directed etc. to inform you that arrangements are being made for ~~the provision of~~ 1 rupee notes issued by the Government of India to be supplied for the purpose of paying off carriers discharged from the military forces in the E.A.P. and Uganda.

2. The India Office have been asked to supply you with these notes to the value of 80 lakhs and I am to request you to make arrangements for them to be shipped to the Chief Secretary of the E.A.P. as soon as possible. The notes should be sent in two lots of 40 lakhs each by ~~two~~ successive steamers, in order [illegible] to avoid ~~double~~ inconvenience should the shipment

8812/18.

540

Downing Street,

PRESSING.

23 February, 1918.

DRAFT.

(9261)

Under S of S.

India Office.

MINUTE.

Mr. Bottomley Feb. 22/2

Mr.

Mr.

Mr. Grindle.

Mr. Lambert.

Mr. Read.

Sir G. Fiddes.

Mr. Hewins.

Mr. Long

~~from C.A.G., E.A.P. 21/2~~

8822

3 drafts

Sir,

I am etc. to ack. the recd. of Edm. letter of Feb 21st, F. 1637, and

~~With reference to the letter from this Department I am etc.~~ to transmit to you to be laid before the S. of S. for India the accompanying copy of a telegram from the C.A.G. of the E.A.F. from which it will be seen that the provision of 1 rupee notes for the payment of carriers is a matter of urgency.

2. Mr. Long is still in communication with the Lords Commissioners of the Treasury on the arrangements proposed but he hopes to have their final approval in the course of a few days. He will therefore be glad if 1 rupee notes to the value of 60 lakhs may at once be sent to the Crown Agents for the Colonies ~~to be~~ who are being instructed to arrange for their shipped in two lots at the earliest possible