When you go to see the I.B.R.D.,
it is important that they shd
understand that the charges of the
loan are in fact met by the
Rly & Hbr. ∴ a reduction of int
wd. either go in reduced rates
in which both Kenya & Uganda wd
share or ~~in~~ if in relief to
budget clearly Uganda wd have
a claim to share.

R.L.

3

His Majesty's Eastern African Dependencies

CHD/DKH.

KENYA. UGANDA.
TANGANYIKA. ZANZIBAR.

TELEPHONE: WHITEHALL 5701/2/3.
ANY COMMUNICATION RESPECTING THIS MATTER SHOULD BE ADDRESSED TO THE SECRETARY. QUOTING REF.

TRADE & INFORMATION OFFICE,
Grand Buildings,
Trafalgar Square,
(ENTRANCE IN THE STRAND)
London, W.C.2

NYASALAND.
NORTHERN RHODESIA.

CABLES: EAMATTERS, LONDON.
TELEGRAMS: EAMATTERS, RAND, LONDON.

CONFIDENTIALLY

14th December, 1934.

Dear Freeston,

As I promised you, I enclose herewith, (confidentially) a copy of the draft Minutes of the Meeting of the J.E.A.B, which I have just received from the Secretary.

I am obliged to send these to you, confidentially, because to start with, they are only draft minutes, but I do not think they are likely to undergo very much change.

Yours sincerely,

C. H. [signature]

Commissioner.

L.B. Freeston, Esq.,
Colonial Office,
Downing Street,
S.W.I.

JOINT EAST AFRICAN BOARD

DRAFT MINUTES of 100th MEETING of EXECUTIVE COUNCIL held at GRAND BUILDINGS, TRAFALGAR SQUARE, LONDON, W.C. 2, on THURSDAY, 6th DECEMBER 1934 at 11 a.m.

PRESENT Sir John Sandeman Allen, M.P. (Chairman)
Col. C.E.Ponsonby.
E.C.H.Bull Esq.
Sir Theodore Chambers, K.B.E.
F.P.Chandler Esq.
The Rt. Hon. Lord Cranworth, M.C.
W.W.Higgin Esq.
Major Sir Humphrey Leggett, D.S.O.
F.Leslie Orme Esq.
G.J.Petitpierre Esq.
A.Wigglesworth Esq.

IN ATTENDANCE Lt.-Col. J.Sandeman Allen, M.C., M.P.
Major C.H.Dale, O.B.E.
A.J.Findlay Esq.
Alex. Holm Esq., C.M.G., C.B.E.
F.S.Joelson Esq.
Major H.Blake Taylor, C.B.E.
A.R.Wise Esq., M.P.
Miss R.Usher. (for C.Watney Esq.)
Miss R.B.Harvey, Secretary.

2087. **MINUTES**

Those of the 99th Meeting of the Executive Council having been distributed to Members were taken as read and confirmed.

2088. **EXECUTIVE COUNCIL**

Special permission to be absent from the Meeting was given to Mr. A.Hamilton, Sir Sydney Henn and Sir Philip Richardson.

The Chairman welcomed to the Meeting Colonel Sandeman Allen, Mr. A.R.Wise, and Mr. A.J.Findlay, Director of Agriculture, Zanzibar. He said that invitations had also been sent to Mr. Lindsay Allan, the new Director of Lands, Mines, Surveys and Geological Survey in Tanganyika, and to Dr. J.D.Tothill, Director of Agriculture, Uganda, who were unfortunately unable to attend.

The Chairman read a letter dated 20th November which had been despatched to the Uganda Chamber of Commerce, in accordance with Minute 2075, explaining the difficulties of their suggestion that the Chamber and the Planters' Association should each have a separate representative on the Executive Council.

The Chairman referred to a private letter he had received from Mr. Sim, dated 9th November, saying that he had written to the Association of Chambers of Commerce of Eastern Africa asking them to accept his resignation as one of their representatives on the Executive Council. The Chairman explained that Mr. Sim had been unable to attend Meetings regularly, as he was away a good deal in the North. He asked Members to regard this matter as confidential until Mr. Sim received an official reply from the Associated Chambers accepting his resignation.

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2089. COMMITTEE OF EAST AFRICAN REPRESENTATIVES

It was reported that the Draft Minutes of the meeting of this Committee held on 21st November had been circulated to Members of the Executive Council for their information.

The Chairman said that the Committee unanimously passed the following resolution and decided to submit it to the Executive Council:-

"The Committee are unanimously of opinion that the appointment of another official as an economic adviser or business manager for each of the East African Territories separately is not likely to be of material value; but that on the other hand the co-operation of the representatives of organised production and marketing should invariably be sought by the Governments, and especially when any change of policy or commercial agreement is contemplated."

The Committee also decided that the question of having one economic adviser for East Africa as a whole was worth serious consideration in the light of the future of the territories, and agreed in the first place that the Chairman should consult Colonel Walker, Secretary to the Governors' Conference, in regard to this matter. The Chairman then read the letter dated 27th November which he had addressed to Colonel Walker in accordance with the decision of the meeting.

Lord Cranworth, who was not present at the meeting of the Committee, said that he endorsed the decisions reached.

Sir Theodore Chambers referred to a statement in the "Times of Ceylon" of 12th November to the effect that the State Council had agreed to the proposal of the Executive Committee of Labour, Industry and Commerce to appoint a Technical Adviser on Industries. At his suggestion, it was agreed to make investigations through the Colonial Office in regard to this appointment.

After consideration, the above resolution was unanimously adopted by the Executive Council, together with the suggestion that further consideration should be given to the proposal of a single economic adviser for East Africa, it being decided to defer action in the matter in the meantime until receipt of a reply from Colonel Walker to the Chairman's letter.

2090. CONGO BASIN TREATIES

Reference was made to the information given by Colonel Ponsonby at the October Meeting of the Executive Council in regard to Japanese imports into Ceylon (Minute 2071). Further information was reported to the effect that quota regulations in Ceylon had been recently amended, and that the bulk of the Japanese piece goods which had been imported in excess of the 1934 quota and placed in bond had now been cleared by consignees against the 1935 quota. It was understood that the Japanese importers at Colombo did not consider piece goods imported for the Ceylon market were suitable for East Africa, and that if quota restrictions should necessitate reshipment, it was probable that their destination would be the Dutch East Indies.

The Secretary reported that this information had been passed on to the Associated Chambers in a letter dated 13th November, which at the same time expressed the hope that it would not be long before their Liaison Committee submitted the views of the Association on the subject of the Congo Basin Treaties for the information of the Board.

2091. AMALGAMATION OF MINES DEPARTMENT, TANGANYIKA

It was reported that a further letter dated 23rd October from the Dar es Salaam Chamber of Commerce had been received, enclosing copy of their letter to the Chief Secretary, Dar es Salaam. This letter referred to a resolution passed by the Chamber in December 1932, recording their opposition to the amalgamation of the Mines and Geological Departments under a Director of Mines, Geology, Surveys and Lands; and submitted a further resolution passed at their meeting on 18th October last asking that Government should extend its activities to meet the needs of the mining industry of the country.

It was reported that the proposals for the organisation of the Department of Lands and Mines outlined in Sessional Paper No.8 of 1934 were adopted at the October Session of the Tanganyika Legislative Council, although they were opposed by the Unofficial Members.

It was noted that the Chief Secretary in the course of his speech made the following statements with regard to the appointment of a Mining Consultant:-

(a) "Government proposes first of all that the most important and most highly paid post in the new organisation ... should be that of Mining Consultant. It proposes thus to provide itself with the best technical advice it can obtain from an expert independent of any departmental ties or duties."

(b) "We have been fortunate in securing, as our first Mining Consultant, Dr. Teale, who has experience of mining in many countries throughout the world, whose reputation here and in London is of the highest, and whose knowledge of the country and of its mineral resources is absolutely unique. .... He is not, it is true, a Mining Engineer, although a Member of the Institute of Mining and Metallurgy, but I venture to say with some conviction that there will be general agreement that his qualifications are in other respects so high that the fact that he is not a Mining Engineer is of secondary importance. This is particularly the case at the present stage of development. I have no doubt whatsoever that his successor in due course will be a Mining Engineer, and I hope that (perhaps in collaboration with Kenya and Uganda) we shall be able to secure an eminent Mining Engineer."

2092. PACKAGE TAX

The Chairman recalled that at the last Meeting, at the request of Sir Humphrey Leggett, it was agreed to consider this matter at this Meeting, with a view to supporting the resolution submitted by the East African Section of the London Chamber of Commerce to the Colonial Office urging the abolition of this tax. He said that according to the Annual Financial Report by the Acting Treasurer of Kenya, this tax yielded £678 in 1933.

It was reported that at the Kenya Legislative Council in October, the Commissioner of Customs said he had the Governor's permission to announce that the Governments of Uganda and Tanganyika having decided not to continue the imposition of the tax on imported packages after the end of the present year, the Kenya Government felt that it would be unwise to continue the package tax on a unilateral basis and therefore also proposed its abandonment at the end of the year, with the sanction of the Secretary of State for the Colonies.

2093. IMPERIAL AIRWAYS

Reference was made to the fact that the air mail services between England and South Africa would be doubled from the end of the present year; and that the bi-weekly departures for South Africa would be on Sundays and Wednesdays, while the inward mails would reach London on Thursdays and Saturdays.

The Chairman considered that Sunday was an unfortunate day for business men, and several Members expressed the view that the extra service would not be much additional use for this reason. The Chairman agreed to write to Imperial Airways to point out the difficulties to the business community.

2094. FINANCES OF KENYA

The Chairman referred to the Governor's statement at the November Session of the Kenya Legislative Council that the accounts for the financial year 1934 were expected to show a deficit of £54,000 instead of the surplus of £10,000 expected a year ago, which was partly due to shortfalls in Customs receipts and native taxation. He also referred to the fact that Kenya would thus have had deficits for six years in succession, amounting to £730,000, and that the surplus balances were now exhausted. He pointed out that the draft estimates for 1935 as presented by the Governor at the Legislative Council provided for expenditure exceeding the 1934 figures by £47,000, an increase which the Governor stated was due to unavoidable fixed obligations, including pensions and loan charges. He therefore suggested the formation of a small committee to study how far it was possible to help Kenya in these matters.

Major Dale said that in his opinion it would be necessary to take into consideration all loans to the Colonies bearing these high rates of interest and not only East African, and he did not see why an omnibus voluntary long term conversion loan could not be brought out which would enable those who wished to do so to convert and those who did not wish to convert would be bought out at the appropriate market value.

Lord Cranworth did not think that the Elected Members would necessarily agree with the Governor's explanation of the increased expenditure. He considered that the Board should make a study of this vital question, with a view to offering any suggestions which might help the situation. He suggested in the first place that the Colonial Office should be asked for a précis of the financial position.

Mr. Wigglesworth referred to the omission of a conversion clause in the Kenya Loans, but suggested that the possibilities of conversion should not be ruled out, and that investigations should be made in the matter.

Sir Humphrey Leggett stated that this question had been thoroughly examined by experts, and that the authorities were of opinion that conversion was out of the question. He suggested as a possible solution that the Colonial Development Fund might be utilised to bear some of the burden of the interest on the Kenya Loans. He said that the terms on which the Fund had been voted by Parliament were to provide capital sums for certain purposes, to guarantee interest, and to pay interest on loan monies during preliminary stages of approved schemes. He said that the two Kenya Loans of £5,000,000 each carried interest at 5% and 6%, averaging 5½%, which was, say, 2% higher than the current rate for such loans today. Kenya had thus to provide £200,000 per annum interest on these Loans in excess of the current rate. He suggested that it might be possible for the Colonial Development Fund under its terms to grant this sum, or part of it, as a relief to Kenya. He pointed out that such a solution would be preferable to a grant-in-aid which would place the Colony's finances under Treasury control.

Sir Theodore Chambers agreed with Major Dale as to the possibility of conversion of these short term Loans into a general Colonial Loan on long terms at a lower rate of interest. He thought that conversion on these lines might prove attractive to holders of Kenya Loans. He pointed out that as the date approached for redemption of these Loans, conversion would become more attractive.

The suggestion of the Chairman was adopted and a sub-committee was appointed to consider the whole question, consisting of Lord Cranworth, Sir Theodore Chambers, Sir Humphrey Leggett and Mr. Wigglesworth, the Chairman and Vice-Chairman being members ex officio and Major Dale being a co-opted member. It was also resolved to ask the Colonial Office for a statement of Kenya's financial position for the information of the sub-committee.

2095. CLOSER CO-ORDINATION OF SERVICES

The Chairman referred to the telegram in the "Times" of 28th November summarising a resolution passed at the Session of the Association of Chambers of Commerce of Eastern Africa on 21st November as follows:-

"In the opinion of the Chambers the degree of co-operation and co-ordination already secured warranted in the interests of economy a further step towards unification. This should not only provide very considerable and much needed financial relief, but the territories would immeasurably benefit by treating larger economic questions at one time and place and in an assembly consisting of the most experienced representatives of each territory. The Imperial Government are therefore urged to constitute the territories into a Customs and fiscal administrative unit, with the proviso that measures be adopted not to infringe the provisions of the Mandate and to ensure just provision for the preservation of the special characteristics of Kenya and Uganda as established by agreement and tradition."

It was decided to await detailed reports of the discussion from the Associated Chambers.

2096. EAST AFRICAN AGRICULTURAL RESEARCH STATION, AMANI

It was reported that copies of the Sixth Annual Report of this Station for the year ended 31st March 1934 had been received from the Colonial Office and from H.M. Eastern African Dependencies Office.

The Chairman referred to his visit to the Amani Station in the autumn of 1933, when he was much impressed with the importance of the research work being undertaken. He said that although he greatly regretted the abolition of the Empire Marketing Board, through which a grant was made to the Amani Station, he was glad that the contribution was being continued, and considered that in the interests of East Africa and the Empire it was essential that there should be no break in the continuity of the work of this Research Station. It was resolved to raise this matter at the next Colonial Office Conference.

Mr. Wigglesworth referred to the experiments with the new type of sisal, Agave amaniensis, which had a leaf containing twice as many fibres of finer quality as compared with Agave sisalana. He said that if these experiments proved successful when tried on a commercial scale at the new low level station which it was proposed to establish between Tanga and Muhesa, consumption of sisal would be greatly increased since this finer fibre could be put to many new uses.

2067. CLOVE INDUSTRY

At the invitation of the Chairman, Mr. A.J.Findlay, Director of Agriculture of Zanzibar, said that Zanzibar was insular in every way and essentially different from the East African main-land territories. He said that Zanzibar had two industries, the important clove industry and the relatively unimportant copra industry. He said that the clove industry made Zanzibar, and its importance depended on the fact that Zanzibar exported 80% of the world's supplies of cloves. He considered that Zanzibar was likely to maintain that position. Cloves were also grown in Java, Penang and Madagascar, the last named being Zanzibar's most important competitor. The production of cloves in Madagascar was, however, limited, and he did not think that Zanzibar had any need to fear Madagascar.

Mr. Findlay said that Zanzibar at one time had been extremely prosperous, perhaps too prosperous, and then had fared like other primary producing countries when the slump came. He believed that Zanzibar had now turned the corner, and that the budget for 1935 would be balanced. In addition to effecting economies, he said that the Government of Zanzibar had worked out a scheme of re-organisation for the stabilisation of the clove industry. He pointed out that the clove industry paid for Zanzibar through a high export tax ranging from 20% to 40% dependent on the value of cloves for the time being. He did not know of any other Colonial industry which bore an export tax at the same rate as the clove industry in Zanzibar, and the fact that the industry was able to carry that burden showed that it was in a sound position. The Government of Zanzibar was determined to ensure the continuance of this sound position, and had taken steps recently to assume virtual control of the industry, as being the only way of safeguarding the future of the industry and the producers. He said that the Clove Growers' Association, which was established some years ago, had now been re-organised as a separate body constituted under a legal decree. The Association was managed by a commercial man employed and paid for by the Government, but who was not a Government servant under the usual Government conditions. The object was for the Clove Growers' Association to function quite apart from Government on the lines of a big commercial concern, although it was of course financed by Government. The Association advanced money to clove growers on crops deposited, and it was proposed that it should become a selling agency.

Mr. Findlay said that Zanzibar's markets for cloves were India, which took fully 30% of the crop, followed by the Dutch East Indies which used cloves in the making of cigarettes, while the rest of the crop went to Europe and America for domestic purposes and particularly for distillation. He referred to the use of glycol as a substitute for cloves for distillation, but considered that if the price of cloves remained at a reasonable level Zanzibar would not need to fear the synthetic product. He said that the Government of Zanzibar, contrary to the views held in some quarters, did not wish to force up the price of cloves, since the importance of maintaining a position which would be satisfactory to all concerned was fully realised.

In reply to Mr. Bull, Mr. Findlay said that the question of the past indebtedness of producers to Indian moneylenders was still under consideration by the Government of Zanzibar and that no decision had been reached.

In reply to further questions by Mr. Bull, he said that in the past the crop had been marketed by a number of middlemen, and that it had been found necessary to bring it on to the world's markets as one economic unit. He said that the functions of the Clove Growers' Association were to finance the crop by advancing money to producers, and also to sell it on the world's markets.

In reply to Mr. Wise who asked whether it had been found necessary to make membership of the Association compulsory, Mr. Findlay said that producers automatically became members when they deposited their crops with the Association. He said that producers were allowed to sell their own crops, but that it was intended that the Association should gradually assume full control of the industry.

Colonel Sandeman Allen asked whether sealed samples of cloves were available for the markets. Major Dale replied that he had already received 'type' samples from Zanzibar and hoped to receive sealed samples in the near future, and had notified the trade accordingly.

The Council rose at 12.30 p.m.

of silver but gold shall get about
£11.400 for every £100 000 of
face value. The item of £548,700
would be reduced by the £11 400
and our free cash be increased
by the same amount. Liberation we
contemplate as being bound
represent about £140,000 as
converted into cash

[illegible]

EAST AFRICAN CURRENCY BOARD

STATEMENT OF THE ESTIMATED GENERAL POSITION AS AT 30TH JUNE, 1934.

	£. s. d.	£. s. d.
Currency in circulation:-		
Silver Coinage	2,317,940. 12. 6.	
Bronze Coinage	268,433. 14. 9.	
Currency Notes	1,565,293. 15. -.	4,151,668. 2. 3.
Advances		2,875. -. -.
Amount due to Royal Mint for Bronze Coin		739. -. -.
		£4,155,282. 2. 3.

	£. s. d.
Investments at mean market price 30th June 1934	687,758. 18. 9.
Balance of claim against Government of Kenya	33,933. 8. -.
Estimated bullion value of Silver in coin in circulation and in stock, less estimated cost of realisation	598,700. -. -.
Estimated metal value of Bronze coin in circulation and in stock	18,500. -. -.
Cash at Bankers in London	10,365. 8. 2.
Sterling available under the Currency Loan Ordinances, 1933, to meet redemptions.	1,500,000. -. -.
Balance not specifically covered	1,306,024. 7. 4.
	£4,155,282. 2. 3.

Exclusive of accrued interest, value of office buildings, strong rooms and office equipment in East Africa.

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M E M O R A N D U M.

by Mr. Clauson

On the 28th of November the Times published an article by Major Grogan entitled "Colonial ~~Audit~~ Credit". Why they should have done this is a journalistic mystery which we shall probably never solve.

One possibility is that their sense of humour suddenly deserted them and they did not see how funny it was to find Major Grogan setting himself up as the representative of the "57,000,000 folk" of the Colonial Empire. Another possibility is that they did, and did not wish to keep the public out of so good a joke. However, most unfortunately they have published the article and we must clearly examine it in detail.

If one may venture a conjecture, it looks as if the cause of these outpourings was that Major Grogan's feelings are hurt because he thinks that the Secretary of State said that he was "uncreditworthy". No doubt he is, but actually the Secretary of State said something quite different, that is that the Kenya Government had no prospect of getting another loan in the London market at present. [illegible] This simple statement of fact has become transmuted in the article into an allegation that the Secretary of State said that the whole Colonial Empire was "uncreditworthy".

No doubt to Major Grogan "Kenya" and "the whole Colonial Empire" are practically synonymous terms, and it was only a momentary lapse into understatement which moved him in one passage in his article to describe Kenya as "this one-third part of the Colonial Empire," but the rest of us are not quite so single-minded and are disposed to resent misquotations of the Secretary of State's words.

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The primary object of the article must, therefore, I think have been to show that the Colonial Empire can be made "creditworthy", but in a queer muddled sort of way it ranges over a much wider field.

I think that it is possible to distinguish three separate trains of thought:-

(1) the Colonial Empire is bound down by the weight of its external public debt and must therefore have some alleviation.

(2) large new capital expenditure is required and raising the money would be facilitated by the measures proposed.

(3) an alteration in the external value of Colonial currencies would make profitable production which is at present unprofitable.

These main lines of thought require detailed examination, but there are also a number of errors and misstatements in the article which I have dealt with separately in an Appendix as they are not directly relevant to the main argument.

(1) The load of Colonial public debt.

There is no doubt that certain Colonial loans such as the Kenya 6% Loan of 1921, were raised at a time when rates of interest were high and the value of money in terms of commodities low, and that the burden of these loans in terms of commodities has increased since they were floated. But this is inevitable in times when values are unsettled. If a country wants capital it must pay the current rate for it or go without, and countries are seldom willing to go without. Indeed as Major Grogan's present article shows, the usual tendency is to think that capital expenditure is going to be much

more

more beneficial than in fact it is going to be, and Kenya settlers have always been in the forefront in pushing forward schemes for such expenditure. Moreover during the period of low value of money the burden of pre-existing debt was for the time being greatly reduced. In the long run these things probably even themselves out reasonably well.

But the article greatly exaggerates both the present load of the public debt of the Colonial Empire and the alleviation w h i c h an alteration in the rates of interest would give. Admittedly this debt is not spread evenly, but Major Grogan has himself spoken in terms of grand totals and by those grand totals he must be judged. The total population of the Colonial Empire is about 57,000,000 and the total outstanding public debt is about £150,000,000 (Major Grogan's figure of £127,000,000 is the net figure of total outstanding debt minus value of sinking funds, but the gross figure is the relevant one for the present purpose).

The Kenya Colony debt is more like £1 per head, & the railway debt concerns Kenya only as a customer, not as taxpayer.

The total amount of public debt per head of population is therefore about £2.13.0. against something over £150 in the United Kingdom, and the annual charge, taking an average figure of 5% interest and 1% sinking fund (which is probably higher than the actual) is 2s.6d per head, as against a little under £7 in the United Kingdom. Even assuming that Major Grogan's preposterous suggestions were adopted and that the interest were reduced to 3% and the sinking fund abolished, the reduction would only be 1s.3d. per head, which cannot represent more than a very small part of the value of the annual output of the individual inhabitant of the Colonial Empire.

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The figures may also be represented in another way. Assuming that all the service of the debt goes out of the Colonial Empire (which is not entirely true) and that it must therefore be met from the exports, the total annual service of the debt on the assumptions stated above (5% interest and 1% sinking fund on £150,000,000) is £9,000,000 a year. The total value of the domestic exports of the Colonial Empire in 1932 was just on £80,000,000.

Assuming then that the cost of the service of the loan were halved, the amount of exports which would be released for other purposes would only be about £4,500,000 or, say, 5½% of total exports.

Any such sums in a total [illegible] would have a cumulative effect. Added margins of expenditure not [illegible] [illegible]?

It is clear, therefore, that the alleviation would be relatively unimportant. On the other hand, the article ignores what has already been done to reduce the burden of Colonial public debt and exaggerates the possibilities of doing more.

In order to obtain the lowest possible rates of interest, a Colonial Government is bound to float loans having a substantial duration, that is to guarantee that that rate of interest shall be paid for a stated period. It so happens that the loans which have been maturing during recent years were almost all floated at a time when the prevailing rate of interest was low and therefore that the benefits of paying off or conversion have been small; but no opportunity has been lost of paying off or converting such loans whenever there was any advantage in doing so.

On the other hand, apart from one doubtful instance in the case of Newfoundland, no British Government has ever failed to carry out to the letter

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the conditions laid down for a sterling loan floated in this country or has ever, so far as I am aware, tried to make a composition with its creditors and their excellent credit is largely based on this fact. Major Grogan talks airily of "offering inducements to convert all current Colonial Empire loans into a consolidated Colonial Empire loan at current interest rate", but what such inducements could be offered which would not cost the Colonial Empire as much as the existing rates? One inducement is apparently an abolition and appropriation to current expenditure of all sinking funds and yet it would be difficult to think of any more effective method of destroying the credit of the Colonial Empire and increasing the cost of its new borrowings.

To sum up, Major Grogan greatly exaggerates the benefits to be derived from reducing the burden of the Colonial public debt and greatly understates the difficulties of achieving such a reduction.

2. The need for new capital expenditure.

...would have (for Kenya) ...doubtful advantage ...annualising for a ...—as it did ...from the heavy ...tered payments, of ...loan charges ...only one.

It is very difficult to discover what schemes Major Grogan has in mind. But judging by his own words "for internal conversion to current rates and the protection of their agricultural base from further destruction" we may fairly assume that in the ultimate analysis it would boil down to nothing more than such proposals as (1) to carry out a large programme of public works with a view to enabling certain Colonial goods (chiefly from Kenya) to be brought to the market at a cheaper rate than at present, this rate being below the cost of the services provided and the balance of the charge being borne by the community at large and (2) to borrow a large sum of money to relend to settlers at a

low

low rate of interest to enable them to pay off mortgages carrying a higher rate of interest.

It seems to me very doubtful whether either of these propositions would be sound Colonial finance and there is no reason to suppose that the public in this country, who are after all the ultimate lenders, would regard them as sound propositions to put their money into. Certainly they would not lend the money at all if there were not satisfactory sinking-fund arrangements and if there had been any suggestion of sealing down pre-existing rates of interest, for all feeling of security would have disappeared.

My own conclusion is that there are few, if any, sound schemes at present existing in the Colonial Empire, which require capital expenditure, but that, if they do exist, there will not ~~be~~, in the existing conditions of the money markets, be the least difficulty in raising the capital required for them at very cheap rates without resorting to any of Major Grogan's questionable proposals.

(3) <u>The devaluation of Colonial currencies.</u>

This is a very old hobby-horse of Major Grogan's and I cannot sufficiently regret that the Times should have afforded him an opportunity to give it another airing.

The proposal is to reduce the value of certain Colonial currencies in terms of sterling.

The idea of making this proposal is apparently no more than that the primary producer will be enabled thereby to get more of his currency in return for a given quantity of goods and therefore will

have

have more money left for himself after he has paid his fixed charges, but it is complicated by some vague idea that an alteration in the exchange ratios would by some magical process raise the money price of primary products without affecting the prices of other commodities or of services. The argument that this would injure the recipient of the fixed charges as much as it would help the primary producer would be countered by saying that the charges were fixed at a time when money was worth less in terms of goods and therefore that the debtor will pay and the creditor receive the same amount in terms of goods as he did when the charges were first fixed.

But this is really based on a whole series of unjustifiable hypotheses. In the first place it is quite wrong to assume that charges were fixed at any one date; some were fixed at one time and some at another and so far as such things as wages are included in the term 'fixed charges' there is little doubt that they have been pretty constantly adjusted in a downward direction as the purchasing power of money has increased. Apart, therefore, from the fact that it would in practice be impossible to fix any generally acceptable datum line as that with reference to which the currency should be devalued, a sudden devaluation of this kind would create far more anomalies and injustices than it remedied.

Another mistake is to suppose that "fixed charges" are of any great importance in the economic life of the greater part of the Colonial Empire. No doubt

doubt to the Kenya settlers, to some sugar-planters and even to some peasants in areas where the Indian, or other, money-lender is a feature in village life, the size of the mortgage on the estate is the principal economic factor in their lives; but to the ordinary peasant producer in the great hinterlands of Empire, of which Major Grogan speaks so feelingly, the term long-term fixed charges is meaningless. No doubt most peasants borrow money from time to time, but it is difficult to believe that tinkering with the exchange rates would have any appreciable effect on the burden of these debts.

On the other hand the objections to gratuitous and arbitrary interference with the currency systems of the Colonial Empire are too numerous and obvious to require statement.

To sum up the case for upsetting these currency systems is quite inadequate.

Appendix.

Observations on points of detail in Major Grogan's article.

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(1) The history of East African currency after the war.

As I am not personally acquainted with the facts I refrain from comment in detail but my impression is that the account is quite an unfair one. It is at any rate disingenuous to mention the fixation of the rupee at 2s. instead of 1s.4d. without mentioning that the effective rate at that date was over 2s. and soon afterwards rose to about 2s.9d.

The words "thus all rents .... were increased 50 per cent against the debtor" are of course ridiculous. The debtor owed, say, one rupee; at that time the rupee was worth about 2s.; all the law did was to reexpress his debt in other terms, it made no difference whatever to the burden of that debt in terms of commodities, which is the criterion by which Major Grogan judges these things. Indeed if the debt was a pre-war one, its commodity amount was appreciably lower than it had been when it was first incurred; but "commodity currency" enthusiasts never suggest increasing the money amount of a debt in such circumstances.

(2) The commodity sterling price-level fell ....

Major Grogan has of course picked the point of maximum depreciation of sterling in terms of commodities.

Appendix.

Observations on points of detail in Major Grogan's article.

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(2) The commodity sterling price-level fell ....

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commodities.

commodities. His statement that the burden of debt on all primary producing countries has increased threefold (or twofold, Major Grogan seems undecided which figure to take) since it was contracted is true only in regard to the small proportion of new debt incurred during that period; as regards debts incurred during that actual period it is true of all countries, not only of primary producers.

The suggestion that the burden of debt on primary producers has been increased 10 fold since 1921 is patently untrue. If it were true, the burden of debt at that time could not possibly have been more than 10% of total production and ought to have been considerably less say 5%. This seems incredible.

It is quite untrue to say that shipping line and railway charges and Civil Service salaries remain at the level at which they were in 1920.

(3) "The authority that controls price-level ...."

There is no such authority. Price-level is not an actuality but a mathematical conception which can be varied at the will of the individual by altering the prices included and the relative weights attached to them. The values of commodities in terms of one another are constantly varying; the position of the individual primary producer depends on the nature of the commodities he produces and those he requires.

(4) "Some provision analogous to that in the Dawes Loan".

I have not the least idea what this means. There is no provision for varying the interest on the Dawes loan by reference to a commodity-price-level.

(5) "We ....had loans distributed among us on terms and in circumstances decided by London without reference to us".

This is a gross travesty of the facts.

"more than twice the mass of our goods which sufficed when the loans were distributed".

This statement would take a good deal of proving, in detail, although there is no doubt that there has been some increase in the physical burden of debt in all countries. So far as individual holders of the loans are concerned, however, the position is probably as broad as it is long, since the taxation on interest has increased in the same proportion to provide for the increased service of the debt.

(6) "In many of these dependencies the whole export is absorbed ...."

This statement is patently absurd. Overseas charges are only a small proportion of total government expenditure. In 1932 there were only seven Dependencies in which total government expenditure exceeded the value of exports. Three of them, Somaliland, St.Helena and British Honduras were in receipt of grants or loans-in-aid which were certainly much in excess of the overseas charges. The four remaining Dependencies, the Straits, Malta, Bahamas and Bermuda have an economic structure based not on primary production but on the rendering of

services

services (entrepôt trade, tourist traffic, services to the armed forces etc.) and the fall in the prices of primary products has therefore made little difference to them.

(7) "When the Japanese................to refrain from this relief".

This is singularly ungracious of Major Grogan since Kenya has done almost nothing to keep out Japanese goods.

(8) "The reduction of vast numbers of our peoples to unbelievable destitution" is of course a grotesque exaggeration.

The only precise figure which can be given is that the exports of domestic products of the Colonial Empire in 1932 were valued at about £80,000,000 or a little less than 30s. per head of population, but this indicates that by far the greater part of the production of the Colonial Empire is for the consumption of the producer himself and his family or for internal trade, and this has been very little affected by the fall in the value of primary commodities in terms of sterling.

(9) "Every primary producing country except the Colonial Empire and India".

Actually the currency of the Dutch East Indies, the principal rival of the Colonial Empire, has appreciated in terms of sterling, so has the currency of the gold block. The currency of South Africa, Canada, Egypt and the United States of America has remained practically at a par with sterling. The

principal

principal countries which have depreciated their currency are Australia, New Zealand, Denmark and South America. They did it because they could not help themselves.

(10) "There are of course technical difficulties ...."

The whole of this paragraph is full of confusions of thought which it would take too long to disentangle in detail.

On "price level" see (3) above.

(11) "Interne cine obligations of citizens" is not a bad description of Kenya, but surely Major Grogan meant "internal".