Conf 54

Date
912
June

Previous Paper
12606

Subsequent Paper
Uganda

CURRENCY

Draft memo. by himself and the Treasurer together with the recommendation of the Executive Council. It will be observed that the Council were unanimously of opinion that no immediate change was necessary. Uganda concurs. Suggests question be postponed and Currency Commrs be given power to refuse to issue notes for gold under certain conditions. Asks if alternative consolidated O in C may be prepared locally or if it has been definitely decided to adopt the British sovereign as the standard coin and to mint an East African rupee.

~~Mr Read~~ Sir G. Fiddes

The decision to accept the Treasury proposal of a special East African rupee was taken in the minutes on O.O. 34/1911. Up to that point the O.A.G.s of the Protectorates concerned had not been consulted on the question. Now that they have been consulted there is found to be a consensus of official opinion against the proposal with the solitary exception of Mr Smallwood, the Treasurer of the E.A.P. Even he is of opinion that there is nothing in the existing situation

which calls for immediate or drastic action. In any case it must be remembered that his experience of East African conditions is not yet a year old.

For my own part, I share the misgivings about a special East African rupee which Mr Bruning in case in his memo of the 1st of March enclosed in the despatch and I prefer the measures originally recommended for overcoming any present difficulty which there may be as to the issue of notes for gold or the cashing of notes in gold, viz. the limitation of the amount of the coin portion of the note guarantee fund which may be held in gold. It is clear from this despatch that any difficulty which was felt in this matter last year has become much less. And, as Mr Bruning points out, as gold came more into use, it would be very simple to recognise the fact by raising the limit of the gold portion of the guarantee fund.

Yes

This was the solution which we devised for ourselves originally and suggested to the Treasury. It is also the solution favoured by the Committee which considered the Treasury's alternative proposal of a special East African rupee (see C.O. 34 p 6). An overwhelming body of local opinion is now seen to be in favour of it. In these circumstances the S. of S. will no doubt be ready at least to weigh the representations in this despatch.

If he is disposed to think that they should prevail, Mr Boring should be instructed by telegraph to prepare and submit for consideration an alternative draft O. in C. consolidating existing orders & providing for the limitation of the gold portion of the note guarantee fund on the receipt of which we can again go to the Treasury.

If the S. of S. decides for the special

rupee, it is simply necessary to say to Mr Bowring by telegraph that the S. of S. adheres to the decision to have the special rupee & will await Mr Bowring's reply to our despatch of the 20th of April. On receipt of that we can proceed to information on that head.

H.A.B.

July 12

I am for the less revolutionary solution of the E.C.

H. J. R.

12/7/11

I think we are courting difficulties if we impose a new coinage on communities or organisations that don't want it – in either case. The circumstances are very different in W.A.

In the circumstances I adhere to the course we the C.O. considered best.

P.H. 13/7

Mr Bowring's issues shows a complete failure to grasp the elements of this problem. He does not understand that in this matter the Govt is not the organized community.

To take his several points:

(1) There would be no ordinary profit to the Govt.

If there are now fifteen million rupees in circulation that represents a cost to the community of £933,333. If these can be replaced at a cost of 10d a rupee (freight has to be paid in either case) the community gets the same service for £306,666. or a gain of £626,667.

2. Considerable amount of extra work and expense would be thrown on the Govt. The extra work can be done by half the numbers you desire at the very outset, and if the arrangements are on proper lines, they will work automatically.

(3). An E.A. Rupee will increase the cost of remittances. This is nonsense. The cost of remittances depends on whether the banks want money in E.A. If they do they will pay to get it just as they do now.

(4) Banks will see it to assist their exchange business. If they do they will have to pay for it.

(5) Render difficult future introduction of English coinage. I do not follow this. If English coinage is introduced we shall have taken to face the problem we are now dealing with in W.A. Seeing as the coinage is based on the sovereign, it does not matter whether Rupees or shillings are used.

(6). Is not a reason against a new coinage.

(7) It will not popularize gold. We do not aim at making gold popular when the millennium is approaching in E.A. that will happen without any effort of ours.

(8). Complicate currency in the eyes of natives

This would be purely temporary, & would be no more of a complication than King George's Head matter of King Edward's.

Refer the papers to Mr. Belfield

A Lowell

Oct. 16.7

GOVERNMENT HOUSE,
NAIROBI,
BRITISH EAST AFRICA.

FRICA PROTECTORATE.

ENTIAL No. 54.

5th June 1912.

Sir,

I have the honour to refer to your Confidential despatch of January 19th, transmitting a copy of correspondence on the subject of the Currency of the East Africa and Uganda Protectorates, and to report the action which has been taken thereon locally.

2. The correspondence was in the first instance referred to the Treasurer with the request that he would record his views on the proposals contained therein. A copy of Mr Smallwood's memorandum is attached. Finding myself in disagreement with some portions of this memorandum, I recorded my views in a minute (enclosure B) and circulated the papers to the Executive Council, by whom they were eventually discussed, with the result that a recommendation in the form of enclosure C was made and entered in the Council Minutes.

3. It will be observed that the Council was unanimously of the opinion that no immediate change in the Currency system was necessary, and, with the exception of the Treasurer, viewed the proposed

change

HT HONOURABLE
S HARCOURT, P.C., M.P.,
RETARY OF STATE FOR THE COLONIES,
DOWNING STREET, LONDON, S.W.

change with considerable apprehension. Mr Smallwood expressed a desire that his memorandum should be forwarded to you, and it is for that reason that I am submitting both his and my minutes in extenso.

4. The enclosed correspondence with the Governor of the Uganda Protectorate then ensued. (Enclosures D,E, and F.).

5. You will perceive that the Governments of both Protectorates are in agreement on the subject, and I have accordingly the honour most respectfully to suggest that the question of changing our Currency system be postponed, and that the difficulties experienced by the Currency Board early last year be dealt with by giving them specific powers to refuse to issue notes for gold when the amount of gold held by them exceeds a certain prescribed figure.

6. Although fluctuating from time to time, the note circulation in the East Africa and Uganda Protectorates is steadily increasing, and the rising tendency of the average monthly circulation of notes is likely to continue for some years with the increasing development of the resources of the country. Further, the experience of the last 12 months has shown that at times it is convenient for the Banks to withdraw gold rather than silver from the Currency Board for remittance to India or elsewhere.

7. Whatever "prescribed figure" as suggested in paragraph 5 may be fixed, I do not therefore consider that it would be necessary to take any

immediate

immediate action to reduce the gold reserve thereto. Notes would, of course, only be issued against silver for so long as the gold portion of the specie reserve remained above it. It could, in addition, be provided that the limit of gold might be raised from time to time, for the reason that, with an increasing circulation of notes, what is a large proportion of the total reserve at present would be a far smaller proportion in a few years' time. The amount of gold held by the Currency Commissioners would therefore before very long arrive at the prescribed limit (1) by the action of the Banks in withdrawing gold from time to time, either for local use or remittance purposes, while no fresh gold would be acquired; and (2) by the steadily increasing circulation of notes issued against silver only which would have the effect of changing the proportions of the two metals and would admit of the amount of gold portion of the Note Guarantee Fund being increased.

8. I have now received your confidential despatch of April 30th transmitting a copy of a letter from the Treasury and a draft Currency Order-in-Council relative to currency in the East Africa and Uganda Protectorates. This will receive my immediate attention, and the information and observations asked for will be submitted with as little delay as possible. I have in the meantime considered it advisable to report on the position as it existed before the receipt of that despatch, and I would enquire whether you consider the objections to the proposed change in the Currency

system

3.

system of sufficient weight ~~by~~ to justify the preparation, locally, of an alternative consolidated draft Order-in-Council, or whether it has been definitely decided to adopt the British gold sovereign as the standard coin and to mint an East African rupee.

I have the honour to be,

Sir,

Your humble, obedient servant,

[signature]

ACTING GOVERNOR.

INCLOSURE A

Conf
In Despatch No. 54 of 5th June 1912

The Treasury,

Nairobi,

4th March 1912.

Reference (37) in Confidential S.467.

Hon: Chief Secretary,

I would preface my following remarks with an expression of opinion that there is nothing in the existing situation that calls for immediate or drastic action. The causes that have led up to the present proposals are fully set forth in the correspondence herein, but lately a new feature has been introduced in the National Bank of India withdrawing sovereigns from the Currency Commissioners (for notes) for shipment abroad. The combined effect therefore of lodging gold in London and withdrawing gold here now is that the currency local reserve would be depleted unless an amount in cash equivalent to the amount lodged in London was given to the Currency Commissioners here: this I have, in the last two transactions, been able to do by mailing to Mombasa £14,000 in silver against the two amounts of £10,000 and £4,000 lodged by the Banks in London. I have however recommended that the temporary arrangement, under which the Banks can lodge gold for notes issued here, be suspended, and I do not think the withdrawal of gold for India will continue.

2. Were the note circulation contracting the above situation might have serious results; but the note circulation, as a matter of fact, is, though fluctuating, steadily expanding, and I have, as stated above, been able to discount any difficulty by treating the amount lodged

in

in London as deposits and issuing a corresponding amount in silver to the Currency Commissioners.

3. The decisions arrived at and set forth in the Treasury letter of 28th December 1911 to the Colonial Office enclosed in C.O.D. Confidential of 19th January 1912 are, in my humble opinion the only possible solution of the difficulty in providing (1) for the periodical increased demands for silver, (2) the comparative large proportion of gold in the currency reserve. I might observe that I had already given expression to views as to the desirability of East Africa having its own rupee and also as to the inadvisability of placing any restriction on gold as a part of our currency note reserve. I therefore welcome the proposals that (1) the sovereign should be made the standard coin of the Protectorate; (2) there should be coined a distinctive East African rupee. That no limit to legal tender of silver is, as yet, to be made is of course a wise reservation under the circumstances.

4. That in adopting the above proposals together with the establishment of a gold reserve we should be only following the example of India is, in my opinion, an additional reason for such adoption. In a much larger measure of course India has experienced similar difficulties as we are doing now. There the silver rupee was standard money until 1893, since which time the whole tendency has been to approach a gold standard, not only of value but as a medium of exchange, and the establishment of the Gold Standard Reserve out of profits made on the coinage of silver until such time as it reaches the figure of twenty five millions sterling is an earnest of the intention apparently of the Indian Government to

eventually

eventually adopt the gold standard and to institute ultimately a limit to the legal tender of silver. The postponement of its immediate adoption is probably due to the same causes obtaining here: viz: a large native population of which the majority are relatively poor and whose ordinary transactions, in receipts and payments, are confined to sums of a few rupees at the most, the fact that the rupee is the only coin known to them, and the disastrous consequences that might possibly arise were any attempt to be made to suddenly enforce the circulation of gold by fixing a limt to the tender of silver. All the above objections may with propriety be applied to East Africa, but that it is a wise policy to gradually accustom the people in East Africa to use sovereigns and rupees, or notes based on gold, side by side is, in my humble opinion, most vital for the permanent financial welfare of the Protectorate, and to this end I strongly support the suggestion that our currency notes should show upon their faces their values in sterling for Rs:15, Rs:30, Rs:75 and multiples of five pounds.

5. By some people it is argued that it is no use having gold in our currency reserve, and that argument has been advanced by people who might be considered to have substantial interests in the maintenance of a gold reserve; to such it might well be pointed out that a reserve against a currency note issue is to ensure that, in times of crisis, the cash in which the note is payable is worth, not nominally only but intrinsically or metallicly, the amount on its face; would this be the case if, given a crisis, a holder of 10,000 Re:1 notes wished to redeem and, - as would probably be the case, - send away his money

to

to pay bills abroad or to take away out of the country? Given such a position it is hard to imagine that anyone would take token coins of only 5/8ths of their gold value if he could get sovereigns. The retort is that such a crisis would never happen; I do not believe it ever will, but here is an instance where what is correct in theory should also be adopted in practice.

6. Turning now to the proposals in detail,- that of making the sovereign the standard coin presents no practical difficulty. The great majority of the European community are I believe in favour of the sovereign. Opposition would be encountered on the part of the National Bank of India, but, as in India the adoption of a gold standard is apparently only a question of time, that opposition will probably disappear. At present and for some time to come the balance of trade will be against us, and so exports of gold may be anticipated; for some years therefore the establishment of a gold standard will not result in any great appreciable increase of gold as a circulating medium,- especially in view of the large and increasing note circulation,- unless a limit to the tender of silver tokens was introduced, a step however I should not advocate at present. I think the policy of the Protectorate should at first be simply to encourage, without forcing, the circulation of gold, and ultimately to introduce a limited token coinage.

7. The issue of a distinctive local rupee to circulate concurrently with the rupees of the late British East Africa Company and of India is a necessary step to provide for the periodical requirements of silver. That these requirements will year by year increase in force is

more

more than probable. Such a distinctive rupee should of course be of the same weight, (180 grains), fineness 11/12ths (or 165 grains pure silver) and remedy, as the Indian rupee and I.B.E.A. rupee. As to the design I would venture to suggest that a committee be appointed to consider and submit alternative designs.

8. The profit on a rupee of nominal value 1/4 of 165 grains pure silver and 15 grains alloy, reckoning silver at 25 pence an ounce, will be six pence after allowing for alloy and minting charges, or 37.5%. Therefore on the purchase of £20,000 worth the profit would be £7,500. I gather that all such profit is to be invested as usual so as to form the guarantee of the new rupee to maintain its gold value. The interest on the amounts so invested might however I venture to suggest be properly carried to the revenue of the Protectorate through the Currency Profit and Loss account.

9. I am of opinion that there should be a fixed amount of gold held locally in the coin reserve, and that it should not be less than £25,000, also that the Currency Commissioners should have discretion in accepting gold in England for notes issued locally. In these two proposals my colleagues, Mr Major and Dr Radford concur. Any sum in gold over and above the fixed amount (rather than resorting to sale of investments) could be sent to England to purchase new rupees of an equivalent amount, the profit being treated as stated above in paragraph 8.

10. If and when the sovereign is introduced as the standard coin I think it would be advisable that Government should let it be publicly notified that all takes and payments to Government will be received in that coin at the fixed rate of fifteen rupees to the sovereign.

11.

11. I am asked to specify any difficulties which may have to be faced in carrying out the wishes of the home authorities. In my humble opinion there will be no difficulties beyond those inherent in any change; and on the whole I believe theintroduction of the proposals will be accomplished not only without any serious trouble or temporary dislocation, but will meet the approval of the vast majority of the European community. It would be advisable that the proposed [illegible] should come into force at once on publication [illegible] postponed to a later period.

12. As Uganda has to be consulted I would ask that I may in due course be informed of the views held in that Protectorate as to the proposals. There, I understand, the natives do not take to the note, but with its steadily increasing wealth I am convinced that the circulation of the sovereign in that Protectorate would ultimately become popular.

13. I would strongly urge that the opportunity be taken in the proposed new Order-in-Council to give powers to the Currency Commissioners either (1) to refuse payment of a mutilated note or (2) to only cash such notes at a discount of 10%. The Order-in-Council of 13th October 1910 under which power was given to the Governor to frame rules with a penalty for defacing, tearing, cutting or otherwise mutilating has not been brought into operation; but the consensus of opinion among the Banks is that steps are necessary to stop the practice. Now the postal facilities for remitting money are so general it seems that no hardship on bona fide cutters of notes would arise, and it would certainly tend to a discontinuance of the practice

by

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INCLOSURE B

in Despatch No. 5 of 5 [illegible] 1912

437

MEMORANDUM ON PROPOSED CURRENCY CHANGES IN THE EAST AFRICA AND UGANDA PROTECTORATES.

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1. I do not at all welcome the proposal that a special East African Rupee should be coined, which would circulate in the East Africa and Uganda Protectorates concurrently with the Indian Rupee at the rate of 15 to the £ sterling, for the following reasons :-

(1) There would be no ordinary profit to Government from the issue.

(2) A considerable amount of additional work and responsibility would be thrown on Government

(3) An East African rupee would for many years to come increase the cost of remittances to Europe and thus have a prejudicial effect on the trade of the country

(4) It would be used by the Banks as a means of assisting them in their general exchange business apart from any question of the trade and commerce of the East Africa and Uganda Protectorates.

(5) It would render any possible future introduction of English coinage extremely difficult.

(6) The difficulties of the Currency Note Commissioners, which commenced at the end of 1910 with the advent of the Standard Bank of South

South Africa, could be easily overcome without resort to so drastic a measure as a complete change in our Currency system.

(7) It will not have the effect of popularising gold, and any attempt to encourage the circulation of gold could equally well be made under existing Currency conditions.

(8) It would by reason of its distinctive design further complicate our currency in the eyes of the natives.

2. I will now deal seriatim with the objections which I see to the proposal.

(1) Absence of Profit.

If any considerable pecuniary benefit would accrue to the East Africa and Uganda Governments, a certain justification for the proposal would at once exist, which might possibly override other objections. But, as far as I can see, the necessity of guaranteeing the issue is an unsurmountable obstacle to the realisation of any profit.

3. It has been suggested that, while the "profit" on the rupee must be invested so as to form a guarantee fund, the interest on the investments could be carried to Revenue. This could not be done, for a number of years at any rate, for the following reasons :-

4 The "profit" does not represent the difference between the nominal value and the intrinsic value of the rupee, but the difference between its nominal value and the total cost of putting it into circulation.

lation. The nominal value is one shilling and four pence. The Treasurer gives the "profit", after allowing for alloy and minting charges, as 6d. The cost of the rupee is therefore 10d. The present value of the silver in a rupee is approximately 8¼ pence, taking the price of silver at 25 pence an ounce. But freight and insurance charges on the rupees from the Mint to Mombasa must be added to the cost, as must management charges. We will place these two charges at ¾d per rupee, increasing the cost to 10¾d and reducing the "profit" to 5¼d

5. The whole of the "profit" cannot be invested, a portion must be kept as an available specie reserve to redeem any redundant rupees from time to time. We will allow, say, one-eighth of the amount of rupees in circulation as a gold specie reserve.

6. Each rupee will be issued in exchange for one shilling and four pence. Of this 1s/4d, 10¾d will be required to pay for the rupee issued, one eighth, or 2d, will go to the specie reserve, leaving 3¼d for investment. But, as the investments might fall, it would be necessary to maintain a depreciation fund of, say, 10 per cent. on their purchase price

7. We will now suppose that we were obliged to redeem one rupee of our currency. We should have for this purpose :-

(a) The gold value of the rupee, i.e. the value of the silver in it, less cost of sending it home and extracting the silver by melting.

(b)

(b) The specie reserve.

(c) The investments.

8. The 3½d of the rupee which was invested must therefore accumulate until it has produced :-

(a) 1½d for minting charges and alloy.

(b) 7/20d for depreciation fund on investments.

(c) ¼d, say, for freight and insurance to Africa and management charges.

(d) ¼d, say, for freight, &c., back to England and melting charges.

The total to be thus produced by the investment of every 3½d is 2.8 pennies. That is, it must accumulate until it increases, by 74 per cent., to 4-1/10 pennies. We will assume that the investments bring in 3½ per cent. per annum. Accumulating at compound interest, it would take between 16 and 17 years before the 3½d per rupee had increased to the requisite total. It would also certainly be a wise precaution to maintain a second depreciation fund to guard against a fall in the price of silver. Further, there would be certain initial charges for strong rooms, &c., apart from recurrent management charges, which would have to be met out of the "profit". Finally, it would be necessary for the Government always to have on hand a considerable stock of unissued coins to meet any demand from the public. I do not think that 15 lacs or £100,000 would be by any means too large a reserve. This would entail a sum of £69,625 tied up, not only without bringing in any interest but also, possibly, being borrowed money,

on which interest would have to be paid.

9. For a good many years to come, we may anticipate that the currency will be more or less expanding. It is true that this prospect might possibly justify the reduction of the specie gold reserve below the amount I have allowed, viz. ⅓ of the coin in circulation, but I doubt whether a smaller proportion would be acceptable to the Lords of the Treasury. But it would also tend to postpone the accumulation of the reserve guarantee fund on the total amount in circulation to the requisite figure for a very considerable period.

10. I think therefore that profit to Government as one of the advantages of an East African rupee can be dismissed as a very remote contingency.

11. (3) Additional work and responsibility.

There is no doubt that, apart from any specially engaged staff, the work and responsibility of some of the permanent officials will be increased considerably. Minute supervision over the transactions will be necessary, and a constant watch will have to be kept on the trade requirements of the two Protectorates. The task of providing the standard current coin will devolve on the Government, instead of on the Banks as at present, and the Government will, to a considerable extent, be at the mercy of the Banks as regards the supply and demand of the coins. This will deal with under head (4).

12. There is always the risk of errors of judgment

in

in issuing one's own currency. I can, as an example, cite the condition of affairs in 1899 when, through the adoption of a mistaken policy, our then-taken subsidiary coinage - the 'pice' - was depreciated to the extent of over 25 per cent. of its face value.

13. Under existing circumstances, the responsibility for maintaining the rupee at par rests with the Government of India, and I can see no reason why we should assume a similar responsibility, with its attendant risks, ourselves unless very material advantages are to be gained, and these I cannot see.

14. Apart from errors of judgment, there are the risks of negligence and fraud - perhaps remote risks but still to be reckoned with.

15. (a) Prejudicial effect on exchange.

In a young Colony like ours, with vast areas in the early stages of development by European enterprise, and with a large population of natives who are gradually being brought under the influence of civilisation, the imports for many years must necessarily exceed the exports. Money made in the country will [illegible] remitted to Europe and India for the purpose of [illegible]asing commodities, not procurable locally, for [illegible]her development of the land and to meet the [illegible] natives.

East African exchange [illegible] locally [illegible] by the rates pertaining [illegible] the price of India Counc[illegible]

(A) Wt. 36863—16. 50,000. 11/19. H St. G. 122. 41.

The effect is that during a year exchange on Europe is on the average at par or better. At present the Banks can, with 15 Indian rupees received locally, afford to pay £1 in England, as they can replace that £1 by means of Indian exchange at a more favorable rate, and at the same time save themselves the cost of importing the rupees from India.

17. With an East African rupee, having a purely local value, 15 of which would be obtainable on demand in East Africa for £1 sterling, it appears to me that the Banks would be obliged to make some charge to their customers for remittances from the country, for the reason that Indian exchange would not come into the transaction.

18. Take the case of the Government who already have to remit money to England to meet home charges. We can as a rule do so at par, and sometimes we are paid a premium on our remittances. But it would pay us to pay a trifle more than 15 East African rupees in Mombasa for a £ sterling paid to our credit in London, for the reason that we could not ship the actual specie to India and therewith purchase a draft on London at a rate which would cover the cost of shipping, loss of interest during transit, &c. In fact the convertibility of our present standard coin - the rupee of India - is, in my opinion, a most important factor where exchange is involved. Such convertibility will not be enjoyed by a local rupee.

19. (4) <u>Opportunity for profit afforded to Banks regardless of local interests.</u>

If

If the proposals now under consideration are adopted, the coins of three separate countries will be circulating concurrently in the two Protectorates, viz. :-

(1) The sovereign of Great Britain.
(2) The rupee of British India.
(3) The rupee of East Africa.

There will be no legal tender limit to these three coins, whose relative value will be fixed by Order in Council. But their relative value will be a local value only.

20. These circumstances would afford an excellent opportunity for the Banks to manipulate the local currency for their own benefit. At present the only Banks carrying on business in the Protectorate do so by means of branches. The Head Offices and principal places of business are outside the Protectorate. This seems likely to be the case for a long time to come. There are at present indications that the Banks are availing themselves of the presence of both English sovereigns and Indian rupees in the hands of the Currency Note Commissioners for the purpose referred to. With an East African rupee added to our currency the position would be accentuated, and the least desirable coins for the time being (from the Banks' point of view) would be returned to Government in some way or another.

21. I cannot see how two rupees, one with a purely local value and one with an exchange value in India,

can

can possibly circulate concurrently as unlimited legal tender at par throughout the year, and I consider the danger of disparity between their values, apprehended in para. 6 of C.O. letter to Treasury No. 24176 of 9th November last, to be a very real objection to the proposal. The legal circulating value of the two rupees being nominally the same, it would be for the Banks to consider whether it would be best in their interests to import Indian rupees direct or to import gold from England or South Africa, and with this gold purchase East African rupees.

22 (5) Difficulty of introduction of English currency system in the future.

It is recognised that for many years to come the introduction of the complete British currency system will be inadvisable. The reason is that the rupee is and must remain the "people's coin" until the natives are sufficiently educated to realise that a florin has a greater purchasing power than a rupee. Still, in years to come, it will undoubtedly be possible to break away from the Indian currency and adopt the British system. The obvious advantage in the latter system is that the seigniorage on British subsidiary silver is far larger than on Indian silver, and there is thus a considerably larger proportion of "profit" available for investment. The date on which interest on investments would be available as Revenue would thus be reached far sooner.

23. As long as we depend upon India for our standard rupee, a change could be more readily effected than when

when we have an enormous amount of our own standard rupees to redeem. The former would be redeemed by the Government of India, the latter by ourselves in gold. This would have to be done at a loss unless the whole of the coins in circulation and in stock at the time of the change were guaranteed in full, which, with an expanding currency is, as I have already pointed out, a most remote contingency

24. (6) Other ways of removing the difficulties of the Currency Note Commissioners which led to the present proposals.

The origin of the present proposals is briefly as follows :-

At the end of 1910 The Standard Bank of South Africa commenced business in the East Africa Protectorate. The position then arose of a gold standard bank, with but a small Indian connection, coming into direct competition with an Indian Exchange Bank which was carrying on business in a country where the Indian rupee was the standard coin, but where the British sovereign was unlimited legal tender at the rate of Rs.15 to the £ sterling. No warning of the advent of the gold standard bank had been given, and the Currency Commissioners were therefore not prepared to deal with the situation.

25. The Standard Bank immediately commenced an agitation, the root of which was an attempt to substitute a gold standard for the rupee currency, failing which they asserted their right to obtain rupees from the Government in exchange for sovereigns at par. Their intention apparently was to use the

currency

Currency Note Office as a money exchange office, a purpose for which it was certainly not instituted. It was contended by the local Government, and has been decided by the Colonial Office, that it is the duty of the Banks and not of the Government to provide the circulating currency of the country other than the Government's own subsidiary coinage.

26. All that was required to meet the difficulty was to give the Currency Commissioners powers to regulate the amounts or proportions of gold and silver in their reserve. This has been done in Ceylon, where the amount of gold which the Currency Commissioners may hold is limited to £200,000. A similar procedure could be adopted in East Africa, and I can see no necessity for the drastic change proposed as a remedy for the temporary difficulty which could be removed at once and for all.

27. (7) Proposals will not have the effect of popularising gold.

The original suggestion of the Lords of the Treasury was that a gold standard should be introduced and a legal tender limit put on the purchasing power of Indian and East African rupees. The object of this proposal was to encourage the circulation of the sovereign. The C.O. however pointed out the difficulties attending this proposal, and the Treasury gave way on the point.

28. The only suggestion for popularising gold, or rather for familiarising the public with the £1 sterling as the money of account which now remains, is

to inscribe the sterling value on the currency notes. I can see no advantage whatever in this proposal. It being admitted that the sovereign is not suitable as the standard circulating medium I cannot see the object of referring to it on the notes, nor do I see what benefit would be derived by introducing the fresh unit into accounts. The system of pounds, rupees, and cents is an altogether novel one, and, so far from being an advantage, appears to me to be a distinct complication, entailing loss of time in book-keeping.

29. Moreover, if our notes are to be issued as units of a sovereign, the convenient geometrical progression of 5, 10, 20, 50 and multiples of 50 would be abolished and a more cumbersome form of progression, viz. 5, 10, 15, 30, 75 and multiples of 75 would be substituted therefor.

30. The sovereign is already legal tender and circulates to a limited extent. It is current coin with an unlimited legal tender, and in my opinion no action by the Government of the nature contemplated will tend to increase its popularity. Moreover, any such action would be taken without issuing an East African rupee. If a demand for more gold arises, it will be met by the action of the Banks as in the case of silver.

31. (8) Complication of currency in the eyes of the natives.

This may appear but a trivial objection and one that would be speedily overcome. But it must be remembered that the natives are very suspicious

where

where currency is concerned, and even the change in the design of the Indian rupee on the accession of King Edward VII. caused a little trouble in some districts. Attempts have been made in the past to palm off tokens and spurious coins on the natives, and the fewer designs of coins of the same value that are circulating concurrently the better.

12. With reference to Hon. Treasurer's minute (39) in S-467 (Confidential), I have the following remarks to make.

Paras. 1 and 2. I agree that there is nothing in the existing situation that calls for drastic action. The situation can be met by limiting the amount of gold which may be held by the Currency Note Commissioners. Such action would in no way affect the adoption, at a later date, of the general currency proposals now under consideration, and I consider that the two questions should be dealt with separately.

13. Para. 3. I cannot agree that the proposals set forth in Treasury letter to C.O., No. 41423 of December 29th, are the only possible solution for the difficulty in providing (1) for the periodical demands for silver, and (2) the comparative largest proportion of gold in the currency reserve. The first is clearly the duty of the Banks, and this duty is admitted by the C.O. As soon as the Government deals with the existing situation with regard to the currency note specie reserve, the Banks will undertake that duty. So long as uncertainty as to the policy

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of the Government in this respect continues, there will naturally be a certain sense of insecurity on the part of the Banks. (2), I have never regarded the comparatively large proportion of gold in the reserve as serious, for the reason that it is unlikely with an expanding note circulation that it would ever be drawn on except in the event of a big financial crisis when gold would be more acceptable than silver.

34. If it were decided to limit the amount of gold which may be held in the currency note specie reserve, and even if the limit were fixed at an amount far below that at present held, it would not in my opinion be necessary to take steps to immediately reduce the total to the prescribed figure. With an expanding note circulation, what is a large proportion now would be a lesser proportion in a few years' time, and it is probable that though a limit may be fixed now it would be increased at a later date. No more gold would be accepted for the present, and it is further probable that exchange business might cause the withdrawal of a part of the existing stock for purposes such as those already reported by the Treasurer, i.e. shipment abroad.

35. Para. 4. I am afraid I am unable to agree that there is anything at all in the difficulties we are now experiencing, which are similar to those experienced by India. The reasons which led to the closing of the Indian Mints and the fixing of the rupee at one-and-four in 1893 and 1897, are too lengthy to refer

to

to take the opinion of Executive Council before addressing the Uganda Government on the subject. I have always understood that the reasons why the natives of Uganda do not take kindly to the note is that the lowest denomination of note is too large for their requirements and because they suffer loss on exchange in converting the note into silver. To my mind the same objections would exist, but to a greater extent, in the case of sovereigns.

51. Para. 13. The question of the cutting or mutilation of note is one with which I am in sympathy with the Treasurer. I will not, however, deal with it in this memo, as it is a matter that can be dealt with apart from the general currency question.

52. Para. 14. I note that the Currency Commissioners are favorably inclined to the proposals made by the Home authorities, but I must express the opinion that they have probably neither the time nor the opportunity of studying the problem from every point of view.

53. To sum up, I see neither profit to the Government nor advantage to the community in the proposals now under consideration. I see no necessity for a change of our currency, but on the contrary see the distinct objection that the proposed change would prejudice any desirable change in future years. And, finally, I cannot see why the Government should assume a very great risk and responsibility in adopting a policy the benefits of which are not apparent.

54. Personally I should prefer to carry on as at

present

present (after defining the powers of the Currency Note Commissioners with regard to their specie reserve) for some years to come. We may by that time have advanced sufficiently to be able to appoint a competent local Currency Commission to deal with the whole question of our currency from the points of view of all interested parties. I do not, however, consider that the trade of the country has yet developed to such an extent as to justify the immediate appointment of such a Commission, nor do I think that suitable Commissioners are available.

53. In conclusion, I wish it to be understood that I frankly admit that I am not an expert in currency and exchange problems, and that possibly the arguments I have brought forward in this memo are in many respects faulty. Further, being fully alive to the grave responsibilities of making recommendations for a change of the currency system of any country, I have perhaps erred on the side of destructive rather than constructive criticism in dealing with the proposals.

(Sgd.) C. C. Bowring

ACTING GOVERNOR.

GOVERNMENT HOUSE,

NAIROBI, March 16th 1912.

Encl 3 to No

Conf INCLOSURE C
In Despatch No. 54 of 5th June 1912

Ag. Chief Secretary,

Council considered this matter in which two questions were involved, viz:-

1. The obligation of the Government to redeem of issue currency notes in gold or silver at the Offices of the Currency Board.

2. The proposed introduction of the sovereign as a standard coin in the Protectorate together with the issue of a local East Africa rupee.

As regards the first question Council was of the opinion that a proper solution would be to fix the amount of gold which may be held by the Currency Commissioners.

As regards the second question Council view with apprehension any proposed change in the currency system (the Treasurer dissenting on this point only) and as they do not see any necessity for an immediate change in the existing system recommend that the matter be referred back to the Secretary of State for further consideration.

His Excellency concurred.

E.P.E. 29.3.12

INCLOSURE D

Conf. in Despatch No. 54 of 5th June 1912

C. O.

PROTECTORATE.

Government House,

Uganda.

30th March 1912.

Sir,

I have the honour to refer to Colonial Office despatch to you, Confidential, of the 10th January 1912, a copy of which was transmitted to this Protectorate under cover of a despatch of even date and in identical terms.

2. The question raised is dealt with in copies of memoranda by the Treasurer and Chief Secretary of this Protectorate and I shall be glad to receive an expression of your views on the subject generally.

I have the honour to be,

Sir,

Your most obedient servant,

Sd. H.R. WALLIS,

Chief Secretary,

In the absence of the Governor.

EXCELLENCY THE GOVERNOR,

EAST AFRICA PROTECTORATE.

The Treasury,
Entebbe.
7th March 1912.

The Chief Secretary,
Entebbe.

I have carefully considered the subject dealt with and I agree with the proposal to make the Sovereign the Standard Coin and to introduce a special local rupee which would circulate with the rupees of British India and of the late Imperial British East Africa Company without limit of legal tender at a fixed rate of fifteen rupees to one sovereign. I am of opinion that the proposals would be beneficial to the country.

Great care should be taken with the design of the new rupee as stated by the Secretary of State. As can be seen the side with the King's Head on our 50 cent and 25 cent pieces is identical with that of the new Indian Rupee. Some markedly different design on both sides must be arranged for.

Sd. G.D. Smith.
Treasurer.

Memorandum by the Chief Secretary.

Before further action is taken I consider that the British Indian Government should be consulted with a view to ascertaining whether the Indian Mint is willing to grant facilities similar to those accorded by the British Mint to British Colonies and Protectorates.

2. The British Mint, in view of the profit made on coinage of silver specie, pays all expenses of transport and insurance to the port of entry of any Colony or Protectorate when the specie is requisitioned for a Government or for a Government Bank on behalf of a Government. That is to say, specie is landed at the port of entry without any expense whatsoever to the Government concerned.

3. If this were represented to the British India Government Mint, it is probable that in view of the very considerable margin of profit on each rupee (which, I am informed, costs 10.5 annas as against a face value of 16 annas) arrangements could be made for the British India Mint to supply the East Africa and Uganda Governments with rupees at Mombasa free of all charges for freight and insurance.

4. The requisition could be made through the Currency Commissioners, who, I consider, should be responsible for the sufficient supply of rupees; for payment of which arrangements could be made by the Crown Agents direct to the India Office.

5. I submit that this would be infinitely better than the proposal to issue a local rupee. The British India rupee is currency throughout British East Africa, Uganda, Zanzibar and German East Africa. A local rupee would circulate only within the two Protectorates. The issue of a local rupee

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was tried in German East Africa, but it is admittedly a failure, as travellers know to their cost; for whilst officially the German East African rupee has the same face value as the British Indian rupee, the actual purchasing power is only 10d. to 1/- moreover, German East African rupees are not recognised by the East Africa and Uganda Governments, and it is unlikely that a local rupee would be recognised in German East Africa, and trade would suffer accordingly.

6. Before taking action for the issue of a local rupee as suggested in the letter from the Lords Commissioners of the Treasury, dated the 29th December, 1911, I submit it would be better to approach the Government of India with a view to consideration being given whether the Governments of East Africa and Uganda may be granted a concession on the analogy of the British Mint, viz., that rupees should be supplied to the East Africa and Uganda Governments free of all cost for freight, insurance and other charges at Mombasa on requisition of the Currency Commissioners, on whom, I consider, should fall the responsibility of maintaining a sufficient supply of rupee silver reserve for the two Protectorates.

7. The introduction of a gold currency would appear to be met by including note denominations in multiples of a sovereign and having the value in pounds shown on the faces of the notes in addition to the rupee value as suggested.

Sd. H.R. WALLIS.

Chief Secretary

to the Government.

Sir,

11th March, 1912.

The Treasury,

Entebbe.

25th March 1912.

Sd The Chief Secretary,

Entebbe.

I have re-considered this matter and would still recommend that we get our own rupees.

2. I do not think our rupee would depreciate as the German rupee has done and we would have the gold reserve to maintain the value.

3. I think the two Protectorates are large enough to have a rupee of their own, and the Indian rupee would still circulate in the two Protectorates.

4. As regards our own rupees not circulating in German East Africa, I do not think this would effect our trade.

Sd. G.D. Smith.

Treasurer.

INCLOSURE E

to Despatch No. 54 of 3 d June 1912

ENTIAL.

10th April 1912.

Sir,

I have the honour to acknowledge the receipt of Mr Wallis' letter - C.8b - of 30th ultimo on the subject of the currency of the East Africa and Uganda Protectorates.

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2. I have discussed the question with my Executive Council, who considered that the matter under reference involved two separate questions, namely (1) the obligation of Government to redeem or issue currency notes for gold or silver at the offices of the Currency Board, and (2) the proposed adoption of the sovereign as the standard coin in the Protectorates, together with the issue of a local East African rupee.

ring
3.12

3. As regards the first question the Executive Council was of the opinion that a proper solution would be to fix the amount of gold which may be held by the Currency Commissioners. As regards the second question, Council viewed with apprehension any proposed change in the currency system (the Treasurer dissenting on this point only), and, as they did not see

KELLENCY

OVERNOR AND COMMANDER-IN-CHIEF,

GANDA PROTECTORATE.

39

see any necessity for immediate change in the existing system, recommended that the matter be referred back to the Secretary of State for further consideration.

4. In considering the matter the Council had before them a minute by the Treasurer of the 4th of March 1912, and one by me of the 18th idem, copies of both of which I have the honour to enclose for your Excellency's information.

5. In the absence of any positive necessity for the proposed change, it appears to me that it is premature to consider the question at the present moment, and I would ask your Excellency whether you would be prepared to assent to a joint recommendation from East Africa and Uganda to that effect.

6. With reference to Mr Wallis' suggestion that the Government of India be asked to lay down rupees in Mombasa free of all charges for freight, insurance, &c., I have the honour to inform you that the Government of India has hitherto declined to agree to any proposal for the supply of rupees at a discount on the ground that it is they who guarantee the circulating value of the coins. Further, you will see that, in paragraph 9 of my letter of the 4th of June 1911 to the Colonial Office (No.18617 in C.O. print No.976), I suggested that an arrangement might be come to with the Government of India for a rebate on the cost of importing Indian rupees, but at the Committee Meeting held subsequently at the Colonial Office it was stated authoritatively that the Government of India

would

would not consider the proposal. The rupee is the standard coin of the Government of India, and, as far as I am aware, it is only in the case of subsidiary coins that the British Mint will supply them at face value in the different Colonies in which they circulate.

I have the honour to be,

Sir,

Your most obedient servant,

ACTING GOVERNOR.

INCLOSURE 5

In Despatch No. 56 of 5th June 1912

PROTECTORATE.

Government House,

Uganda.

6th May 1912.

Sir,

With reference to your despatch No. S.2095. Confidential of the 10th April, 1912, I have the honour to inform you that I concur in the opinion expressed in paragraph 3 and am prepared to support the proposal in paragraph 5.

2. With reference to the question raised in the last paragraph of your despatch under acknowledgment, the British Mint supplies all silver and copper coins to the Nyasaland Government free of charge delivered at Chinde, and I am still of opinion that if the question were represented to the Indian Government in this light a similar concession might be obtained from the British India Mint in respect to Rupee Sterling delivered at Mombasa.

3. As you are aware, the Governor is away on tour and will not be back for some time. I have replied to the questions raised in order to allow of your making representations to the Secretary of State without further delay, should you so desire.

I have the honour to be,

Sir,

Your obedient servant,

Sd. H.R. WALLIS

Chief Secretary to the Government.

In the absence of the Governor.

Excellency,

The Governor,

East Africa Protectorate,

NAIROBI.