

EAST AFR. PROT
UGANDA

23997

10
2007
1912

Field, H.C.

Date
1912

Previous Paper

23997

After examination of the proposals for a special East African
hupée which have been proposed, the only action which appears to
be necessary at present is to impose a limit upon the
amount of reserve which may be drawn upon by the
Commandants in the form of sovereigns. It is believed that the
introduction of a Currency Note of Rs. 1000 will be appreciated.

~~Mr. G. Fiddes~~ Mr. G. Fiddes

This letter asks if it is ever difficult to
introduce the changes suggested by the Treasury. It is for
the Secretary of State to decide whether he thinks that
the theoretical reasons in favour of a special East African
hupée, with its attendant changes, are strong enough to out-
weigh the opinion of the local authorities and of the newly
appointed Governor of the East Africa Protectorate. If he
decides in favour of the new East African hupée, we should, as
I have pointed out on 20/3/12, inform Mr Bowring by telegram
that the Secretary of State adheres to the decision to have
a special hupée, and will await Mr Bowring's reply to our
despatch of the 30th April (Treas/12506) asking for informa-
tion on that basis. If, on the other hand, Mr Harcourt ac-
cepts Mr Belfield's recommendation, the most convenient course
would be to approve by telegram of ~~the~~ ^{the} preparation and sub-
mission for consideration of an alternative draft Order-in-
Council consolidating existing Orders and providing for the
limitation

Subsequent Paper

23997

... of the gold portion of the Note Guarantee Fund
... for a Currency Note of the denomination
of two rupees. We should then be able in re-opening the ques-
tion of the President to show them in concrete form what
arrangements we propose.

Feb 3

And 1

H. J. R

1/10/11

Let Mr. Balfour see the Report of the Com.
Currency (see before I send this on).

I think he has not quite grasped the
difficulties which will arise from a
limitation of the issue of gold to the
Commissions, and the constant friction
which it will create with the Banks.

at 10/11

H. J. R.

Mr J. Emerson

It has not escaped my attention that refusal by the Com.
to accept gold in exchange for paper notes is open to the objection
that it would cause dissatisfaction to those tendering it,
and I admit that it is not easy to justify such refusal in
view of the fact that the Com. is legal tender.

It seems however to be essential that an adequate portion of
the reserve should be held against the requirements of those
who are entitled to demand notes on presentation of notes.

and I do not see how such difficulty can be surmounted if
the Com. are deprived of the discretion to refuse gold.

3. The whole would probably be that the paper portion of the reserve
would steadily diminish until a stage is reached at which it
would become impracticable to meet demands for silver - which
I take to be a contingency from which the Com. must be
protected even at the risk of causing dissatisfaction to the Banks.

4. I would add that I have offered opinions on this subject with
much hesitation as it is not a matter regarding which I can
claim special knowledge. The views I have expressed are
based upon what I assume to be a reasonable calculation. But no
change should be made which is not proved to be necessary in
order to remedy an existing depression, and then the power of
the Com. to meet the demands of the note holders should be
maintained unimpaired. The ideal solution which will
afford this object without being cause for complaint to anybody
is unfortunately not at present apparent.

1/10/11
8.8.12.

20342

H. J. R
1/10/11

The ignorance of this question in England is
comprehensive, and in the voluminous volume
of Mr. Bowring it is difficult to find one real
objection to the course proposed by the Pres.
and endorsed by the S. of S. The one objection
urged by Mr. Balfour - the supposed reluctance of
a nation to accept a new coin - has been fully

considered and accounted by the W. African
Currency Committee, and in the Malay Peninsula
we not only used a new coin but a coin con-
taining only $\frac{3}{4}$ of the metallic contents of the
old, and found no difficulty in getting it ac-
cepted, because we took some trouble to have
the change explained before it was actually
made.

The objection really rests on the assumption
that it is the business of the Banks and of the
Govt. to provide the necessary medium of
exchange for the use of the public, an assumption
which the practice of every civilized govt in the
world contradicts.

To take Mr Bowring's eight objections in order

1. "There would be no ordinary profit to the
Govt." He elaborates this by showing that
the profit on the issue would have to be
accumulated for some considerable time
before the Govt would be in a position to
redeem in gold the wholes of the issue. But
if the whole issue was redeemed, how could
the ordinary business, the daily life of the
country be carried on? If trade in black, or
currency is red, and a certain amount may
have to be redeemed, but that expense has
shown time & again is but a small proportion
of the total amount which even in the most
unfavourable circumstances must remain
in the hands of the people

On his own showing there is a profit of
 $5\frac{1}{2}$ or 33 per cent on every rupee after allowing

and responsibility would be thrown upon the
"Govt." There would be a certain amount
of increased responsibility & a little extra
work, but the machinery is already there for
dealing with the work in the Currency Com-
missioners, and I doubt if the Secy or even
half a clerk would be required to deal with
the addition.

Objection no. 3. is that an East African Paper would
increase the cost of remittance to Europe. Mr B.
says in a new country like East Africa imports
exceed exports & money must be sent to
Europe to pay for these the balance. But where
does the money come from? It is not grown
in East Africa. If imports exceed exports it
is because capital is being invested in the
country, and therefore instead of currency flowing
out more labour is employed & in every way local
circulation is stimulated. Indeed Mr B. him-
self shows this in par 9 of his memo. He fails
to see that the cost of Exchange must depend
on the ratio between the payments Europe has
to make in East Africa to the payments East
Africa has to make in Europe. If it is the case
as he really means that at present European
payments in East Africa are greater than East
African payments in Europe, no doubt the
East African who has a payment to make in
Europe can get it done on very favourable
terms, but the devaluation of the local
currency has nothing to do with that.

Next objection is that it would be used by the Banks
as a means of passing their own general business
business against necessary questions of the trade & local
value of the paper. If Mr. B. knew anything about
the matter at all, he would know that East African
Exchange is now used as part of their general
business by the Banks, and the introduction of a
special East African paper, can neither help nor
hinder them in that process. Mr B. carefully
refrains from saying how it would and would
not, by into the question of difficulty arising from
having two moneys in circulation at the same
time. That would be purely temporary, as if
an East African Paper was issued, it would
obviously be the policy of the Govt to get the holders
to exchange their Indian Rupees for East African
papers and to ~~do so~~ return the Indian Rupees to
India in exchange for gold.

- (5) It would render any future introduction of
English currency difficult. No one do not want
English currency, that is no objection at all.
- (6) The difficulties of the Note currency can be
overcome without so drastic a measure. The
proposed way of meeting the difficulty is to
refuse to issue notes against gold, although
gold is legal tender. I can conceive that this
measure would remove the difficulty of
the Note currency, but it can only do
so by causing considerable inconvenience
to the public, who want rupees and want
them at once, and naturally go first to the

...and if they feel there
has to be a way to get these
gold.

(7) The proposals will not popularize gold.
I do not know that any one expected they
would, but they will increase the amount
of gold in the country & enable the currency
to be contracted at once if it becomes necessary
by issuing gold for rupees which can be
locked up till they are wanted.

(8) The complication of currency in the
eyes of natives has already been dealt with.

The present arrangement under which
we are dependent on India for our standard
Coin both as to its supply and for its maintenance
at standard weight, has absolutely no
recommendation except that it is in force,
and in spite of the local hesitation I want
to go on with the proposal for an East African
Rupee, though of course the local opposition
of the local officials is a difficulty, and
they would have to be talked to pretty
hardly.

It might clear the atmosphere if the
matter was referred to a committee like
the W. African one - where these officials
could have their foolishness brought
home to them.

C. G. O.

In my first minute on this question on 3/4/17/11 I supported (1) fixing the portion of the Note Guaranteed Fund which might be kept in gold, but (2) agreed that there was much to be said for a special rupee. I sh^d now put (2) first + (1) only as a pis aller.

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I think Mr Bowring is quite wrong in many of his arguments + I agree with most of what Sir J. Anderson says in reply.

It will be apparent, therefore, that I am most reluctant to suggest to the S. of S. that we should call a halt to the scheme for the coinage of a special rupee, but I must confess that I dare not urge him to force this plan on unwilling officials + hostile financial in the face of strong financial + mercantile opposition. It is not that I dread native suspicion if we have the officials with us + the white traders not hostile, but this case differs so much from that of the Malay Penⁱⁿ that it would be unsafe to make one a safe guide for the other.

Witness after witness who came before the M. of C. Currency Com^{tee} laid stress on the necessity of guarding against native suspicion if we adopted a special currency there + I see no way of doing that if the banks + officials are hostile or uncourteous. In the case of C. A. P. + Uganda, only the two treasurers are favourable. Everyone else is against + Mr Bowring, who knows at once too much + too little, has apparently aroused some opposition needlessly. Therefore, for the present, I see no chance of a change to a special rupee being brought about without great risk.

There does not seem any great need to hurry matters. The gold traw ble

appears to have died away for the present. I believe strongly that a special rupee is the best solution & I suggest we ask Mr. Belfield to enquire into the whole question very carefully when he gets out & to report further upon it, we meanwhile holding our hand.

Since received
a new page
has been
minuted
on that

A.

I think it very desirable that we should find out why the German special rupee went to a discount.

The idea of asking India to lay down rupees at Bombay at face value, with freight & insurance paid must not be allowed to make way. It would be a fatal mistake & a barrier to any change in the future.

12.8

I agree to A. ... Belfield should be ...
opportunities ...
that ...
An ...

15 8.12

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Some words
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012.8

inquire to A above, but Mr. Relfield should be told that we attach great importance to the rupee. The Government of India has the authority to...

15. 2. 12

C.O.
22297

Dwight Street,

30. July, 1912.

Sir,

I have the honor to acknowledge the receipt of your letter of July 24th, 1912, No. 22287/12, transmitting for my consideration copies of correspondence relating to currency questions in East Africa and requesting my observations thereon.

1. I have perused these papers with much interest and the impression left on my mind after examination of the various expedients which have been suggested, is that it is not at present advisable to make the changes which have been proposed.

2. The question seems to have arisen in consequence of the demand of the newly established branch of the Standard Bank of East Africa that paper notes should be issued in the Currency Commissioners in exchange for sovereigns. I find no indication that, in the absence of such demand, the condition of commerce in the country renders any change in the currency advisable.

3. In the absence of very substantial reasons it is not considered desirable to make alteration

in

UNDER SECRETARY OF STATE
COLONIAL OFFICE

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in currency which circulates among an uneducated native population. The people invariably view with distrust any variation in the size, weight, or appearance of the coin to which they are accustomed, and the suspicion thereby engendered cannot but adversely affect the trade in which they may be engaged. I therefore deem it of importance that the circulation of the Indian rupee should continue unimpeded, and I should deprecate the introduction of any new arrangement which might have the effect of impairing or limiting its present utility.

5. I find nothing in the papers indicating probability of any shortage in the supply of Indian rupees, and as it is the business of the Banks to secure consignments sufficient to meet the requirements of their customers, it is not apparent that Government intervention is needed in this direction.

6. It seems to me, therefore, that the only action at present required is to impose a limit upon the amount of the reserve which may be held by the Currency Commissioners in the form of sovereigns. I have no such knowledge of the limitations fixed elsewhere as would justify me in suggesting a figure for adoption in East Africa, but it may be more convenient to prescribe it in the form of a fraction of the whole reserve rather than in that of a fixed sum, as it is possible that expansion of trade may necessitate an increase in the note issue at no very distant date.

7. The amount of gold now held by the Commissioners is probably largely in excess of the figure which

it would be desirable to prescribe. It will, therefore, be necessary to devise some arrangement for gradually disposing of the surplus, but this is a matter regarding which I am not at the present time in a position to offer advice.

8. I gather from the correspondence that the smallest denomination of currency note in circulation is Rs.5. As to this, experience elsewhere leads me to believe that a note of considerably smaller value, say Rs.2, would be greatly appreciated, and would tend to materially diminish the demand for silver rupees. The point seems to be worth consideration.

I have the honour to be,

Sir,

Your obedient servant,

Alfred B. ...