1934 23288	KENYA CO533/451	1934 23288

Financial Position 1934.

Previous 23019/34 Estimates		297 Room 309.	2/3		
Subsequent Subfile I 23321/1/34 Estimates 23335/34 Loan Conversion 30105/39					
Reg 297	3/12				
Mr Freeston	5/12				
Mr Boyd	10/12				
Mr Fiddian					
Reg 297	14/12				
Mr Freeston	15				
Sir C. Bottomley	15				
R. 297	20/12				
Room 309	20/12				
Mr Flood	22				
Sir C. Bottomley	22/1				
R. Boyd	1				
291	28/12				
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Mr Freeston	23				

File No.

C.S.
Financial
Financial
Position

1. Extract from The Times of 22 Nov. 34
DESTROYED UNDER STATUTE
2. Extract from The Times of 22 Nov. 34
DESTROYED UNDER STATUTE
3. Extract from The Times of 26 Nov. 34.
DESTROYED UNDER STATUTE
4. Extract from The Times of 28 Nov. 34
DESTROYED UNDER STATUTE

5. City Editor of The Times ———— 30th Nov. 34
Seeks information regarding financial questions set out on the attached list.

I attach a draft reply to Mr.Mills's questionnaire; Mr.Clauson has furnished the answer to the last question.

The reply does not deal with the point in Major Grogan's letter to the "Times" of November 26th (No.3 on file). If it is thought that reference should be made to Major Grogan's suggestion a separate note will be necessary pointing out that his figures are arbitrary; and that Railway finances are quite separate from those of the Colony so that even if the suggested financial juggling took place it would be the Railway and not the Colony which would benefit.

[signature]
4/12

5A Crown Agents – 3-12-34

Mr. Boyd

Sir C. Bottomley has approved the attached memo.

[signature]
5/12

6 I have sent a copy of it to Mr. Mills.

E.B. Boyd
6/12/34

If they are 'fixed & unavoidable' then no amount of study can alter them.
J.E.W.F.

This is a bit think. The Joint East African Board has taken upon itself to appoint a small sub-committee to study the increase of expenditure in Kenya due to unavoidable fixed obligations. So far as I know, nobody asked the Board to do this and it is very difficult to say what constructive suggestions a body like the Joint East African Board can produce.

Not only have they appointed a sub-committee to do the Secretary of State's work for him, but they now ask for a précis of the ~~official~~ financial position of Kenya showing the amount of public debt, the annual interest and sinking fund charges and the surplus balances together with a similar statement for Uganda and Tanganyika. The Board is no doubt in possession of the annual financial reports and statements issued by Kenya, Uganda, etc. and, is, presumably, in possession of copies of the annual estimates from which the information can be extracted just as well by the Board as by anybody in this Office. I suggest then that the Board be informed that full information regarding Kenya's finances may be obtained from the Financial Report and Statement for the year 1933, of which they no doubt have a copy, and that similar information can be gathered from the Reports produced by Uganda and Tanganyika. We might also include, in case they have not got it, a copy of the Statement on Colonial Loans, submitted to Council in November 1934, as per copy herewith.

Yes.

I don't feel at all inclined to do more. The small sub Committee may as well find something to do.

J.E.W.F.
22.12

And add the usual suggestion as to consulting reports in the Library.
[illegible] 24.12.34

14 To Jt. E.A. Board (Bannet.) 28/12/34
(c/c Col. loans Kenya XXII)

15 Sir J. Byrne (s.o) Air Mail ———— 19 Dec 34
Acks No 10 & states his views on Major Grogan's articles.
(Original on 23335/34, copy attached)

Putby

[illegible]
23/1 [illegible]

16 Governor Byrne Tel (Personal) ———— 1st March 35
States that instead of deficit in 1934 there will probably be a surplus of £41,000.
DESTROYED UNDER STATUTE
(Copy rqd. for record, orig. on 38008/35).

Putby.
D Malone
18/3/35 at once

DM

17. Extract from E. A. Standard of 13th March 35
(Rqd. in accordance with minute of 29th Apl. 35 on 38051/35)
DM

4

Sir C. Bottomley

Mr. Freeston

Sir John Caulcutt rang me up yesterday to ask me to let the S. of S. know that he had seen Mr. Mill, Financial Editor of "The Times", and that he thought he had made some impression on him. I gathered that Mr. Mill is making further investigations into East African currency matters, and that it is not likely that he will put an article in "The Times" just yet.

Sir John Caulcutt said that he intended to have a talk with Mr. Ezechiel about the East African Currency Board, as he had some suggestions to make which he thought might be helpful in the matter of buying and selling currency.

E. L. Lloyd.

8.12.34.

[illegible] 8

W.C.B. 10.12.34

Mr Lloyd

I have told S of S. [illegible]

[illegible]
1[illegible]

7. C. J. Hill (S.O.) ——— 6th Dec 34
Ack. No 6.
DESTROYED UNDER STATUTE
8. Extract from "The Times" of 10 Dec. 34
DESTROYED UNDER STATUTE
9. " " " " " 11th Dec. 34
DESTROYED UNDER STATUTE
Air Mail. 10. To Sir J. Byrne (S.O) – A/c 9. ——— 11th Dec 34.
11. Extract from "The Times" of 13th Dec. 34
? Put by.
[illegible] 15/12
I hope Major Grogan will not have given anyone the impression that a new tribe has sprung, by itself, for its own administration.
[illegible] 15.12.34
12. Extract from "The Times" of 19th Dec 34
DESTROYED UNDER STATUTE
13. Joint East African Board ——— 19 Dec 34
States that the Board has appointed a sub-committee to study the question of Kenya expenditure & see how far constructive suggestions can be made & requests that a precis of the financial position may be supplied. Requests also that a similar statement for Uganda & T.T. may be furnished also.

KENYA FINANCES IN 1934

A Small Surplus Probable

Nearly £4,000

REVENUE & EXPENDITURE DOWN ON ESTIMATES

Although the final revenue and expenditure figures for 1934 will not be known until the Colony's books for the year are closed about the end of March, it appears probable on the information now available that the accounts of the year when closed will show a small surplus.

The total revenue and total expenditure incorporated in the accounts of the year up to and including the December accounts are:—

Revenue ...	... £3,180,501
Expenditure	... £3,176,565
Surplus ...	£ 3,936

The accounts are, however, subject to the inclusion of entries and adjustments largely relating to the apportionment between the Territories concerned of the revenue and expenditure of Joint Services. Details of such entries and adjustments are not yet available but it is not considered likely that they will, on balance, materially affect the difference between total revenue and total expenditure given above.

The original estimate of revenue for 1934 was £3,198,973 and the original estimate of expenditure £3,188,041.

The East African Standard

WEDNESDAY, MARCH 13, 1935.

KENYA FINANCE

A 1934 Surplus

The Government of Kenya may feel disposed to refer all the critics of its financial policy—and they have been unusually numerous and outspoken — to the unexpected surplus for 1934 for the answer to any doubt cast in recent months on official wisdom and faith. It would have some justification in doing so because for the five preceding years Kenya has piled up an appalling series of budget deficits and ended by almost exhausting its cash resources. The country, therefore, may be warranted in indulging in a little restrained optimism—at least until it knows how the surplus was reached and from what sources it emerged! It will be recalled that over a year ago, when the 1934 Estimates were framed, the paper surplus was raised, with the aid of the Select Committee, to a figure of £10,962. That was considered to be reasonably satisfactory since it followed five successive deficits from 1929 to 1932 totalling £676,000. Government claimed that its estimates of revenue for 1934 had been framed on sound and conservative lines while expenditure had been curtailed even beyond the figure suggested by the Expenditure Advisory Committee. The 1934 Budget had a kindly reception. It was regarded as evidence of Government honesty. But as the year went on, Government found that the estimates appeared to rest on a foundation less sound than the Legislative Council contemplated a year before. The revenue expectation was reduced in November last, after contemplation of the September figures, to £3,157,595, a cut of £41,378, because substantial shortfalls were expected from Customs and Native Hut and Poll Tax. Customs alone was reduced from £625,000 to £600,000 and Native taxation was expected to show a shortfall of £42,000. During the first nine months of last year the value of exports fell by £370,000. At the same time Government revised its estimates of expenditure and found that after taking into account all savings, expenditure would actually increase by £24,000 from the original sanctioned figure of £3,188,000 to £3,212,000. Consequently as recently as November last, Government anticipated that 1934 would close with a deficit of £54,000. Instead, it is in the happy position of reporting a surplus of just under £4,000, subject to minor adjustments. In actual fact, the accrued revenue for the year exceeds the revised figure of £3,157,000 by £23,000, but it is £19,000 below the revenue which Government originally budgetted for when the Estimates were framed late in 1933. On the expenditure side, the actual total expended was £3,176,565 which is £36,000 below the amount Government considered necessary five months ago but only £12,000 less than the amount for which the country budgetted originally. It is, however reassuring evidence of progressive departmental savings. Although a surplus of £4,000 will make no appreciable difference to the financial position, it has a moral value in that it interrupts the continuing series of deficits which alarmed the country last year and contributed to the outburst of public opinion here and to the criticism of Kenya finances in Britain. This happy circumstance is stated to be due to two main factors. The first is that heavy imports were recorded in December—one or two ships make a difference—and, as a consequence, that month was the best December for the previous four years. The other contribution was due to the fact that gilt-edged stocks have improved in value and, under the present system of book-keeping, the Colony's investments were written up on the revenue side. It yet remains to be disclosed how far the improved condition of the Treasury is due to a revival in trade and to what extent it is due to the fortuitous circumstance of an increase in value of investments over which the Government has no control and which cannot legitimately be accepted as evidence of financial astuteness. In any event there is no profit in belittling a surplus, from whatever source. If it is a happy augury, let us regard it as such and hope that it means the end of the series of disastrous deficits which nearly brought the country to its knees. Nevertheless, it would be foolish indeed to assume that a surplus of £4,000 can or should make any change in the policy of further economy for which the whole country is pressing or that it will in any way alter the character of the demand for reduced taxation which was voiced last year and will most assuredly be reiterated in increased volume when the 1936 Estimates are presented. The only test of the real nature of the improvement will be its continuation this year. Imports can only be consumed if the community's purchasing power improves and since the main source of wealth is still agriculture, it is difficult to avoid attaching some importance to two figures already quoted: the drop in the value of domestic exports last year of £370,000 and the official expectation that Native taxation would yield £42,000 less than the estimates. These figures are a more trustworthy indication of the internal position than an accidental improvement in Customs or a book entry based on improvement of gilt-edged stocks. The outlook, however, is definitely brighter. Trade is reacting to slowly returning confidence and gold mining expenditure, and the coming of the rains and the disappearance of locusts have together put new heart into the producer. But one good season will not pay the farmers' debts or restore Native losses and even though Kenya has handsome surpluses for the next five years that fact will be no justification for refraining from the attempt to bring the recurrent costs of the Colony well below their present inflated figure, and keeping them there.

PERSONAL.
CONFIDENTIAL.

19th December 1934.

My dear Bottomley,

No 10 Many thanks for your letter of 11th December enclosing the anonymous counterblast to Grogan's article in the "Times". Grogan is a clever and mischievous monkey with a superficial knowledge of these monetary problems. He is always a good target for anyone who has the knowledge and who can give the time to making a considered reply. We in Kenya do not take him seriously and I greatly regret that the "Times" has thought fit to give him publicity. I wish they could be persuaded to refrain from doing so.

His last article on Native Taxation which also contains grossly inaccurate statements on other matters is likely to do harm here as extracts therefrom have been published in the "East African Standard". There is nothing I should like more than to reduce the general rate of tax by 2/- but this would mean a loss of about £100,000

a year.........

-2-

7

a year with a consequential reduction in essential services. In practice I always lower the rate - sometimes halving it - for tribes who are "up against it". On the other hand tribes like the Kikuyu and the Kavirondo can well afford to pay even more than the current rate. It is interesting to note, however, that we are having the greatest difficulty in collecting taxes from these two tribes, the reason put forward being that they are copying their European brethren who object not only to any increased taxation but even to the taxes which they themselves volunteered to pay when they wished to escape Income Tax.

Yours sincerely,

(Sgd.) J. A. BYRNE

SIR CECIL BOTTOMLEY, K.C.M.G., C.B., O.B.E.,
COLONIAL OFFICE,
DOWNING STREET, S.W.1.
LONDON.

23288/34

C.O.

Mr. Eastwood 24/12/34
Mr. Flood 24 / 12
Mr.
Mr. Parkinson.
Sir G. Tomlinson.
Sir C. Bottomley.
Sir J. Shuckburgh.
Perml. U.S. of S.
Parly. U.S. of S.
Secretary of State.

C. O.
R 27 DEC
D 27/12

28 December. 1934

DRAFT.

The Secretary
J. E. A. B.

~~Sir~~

Madam,

I am etc to acknowledge the receipt of your letter of the 19th of December regarding the appointment by the Joint East African Board of a ~~[illegible]~~ sub-committee ~~of its members~~ to study the increase of expenditure in Kenya on fixed obligations, including pensions and loan charges, and to offer constructive suggestions in the matter.

2. With regard to your enquiry whether the Board could be furnished with a précis of the financial

Original [illegible] (KXR)

FURTHER ACTION.

C. O.

Mr.

Mr.

Mr.

Mr. Parkinson.

Sir G. Tomlinson.

Sir C. Bottomley.

Sir J. Shuckburgh

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

DRAFT.

of the Board is of course at liberty to consult the copies of reports in the Colonial Office Library any week-day during the usual office hours.

Iam etc.

(Signed) J. E. W. FLOOD

FURTHER ACTION.

10

13

JOINT EAST AFRICAN BOARD.

TELEPHONE:
WHITEHALL 9389.

CABLES:
"JOINTBOARD." LONDON.

GRAND BUILDINGS,
TRAFALGAR SQUARE,
LONDON, W.C.2

19th December 1934.

The Under Secretary of State,
Colonial Office,
Downing Street,
S.W. 1.

Encl (14)

Sir,

At the last meeting of the Executive Council of this Board, consideration was given to the statements of the Governor in presenting the draft estimates for 1935 at the Kenya Legislative Council. In particular it was noted that the 1935 estimates provided for expenditure exceeding the 1934 figures by some £47,000, and that the Governor stated that this increase was due to unavoidable fixed obligations, including pensions and loan charges.

The Board has appointed a small sub-committee of its members to study this question and see how far it can offer any constructive suggestions in the matter; and I have been instructed in the first place to ask you whether it would be possible to furnish the Board with a précis of the financial position of Kenya at the present time, showing the amount of the public debt, the annual interest and sinking fund charges, and the surplus balances.

The Under Secretary of State. 19th December 1934.

At the same time it would help the Board materially if you could let me have a similar statement for Uganda and Tanganyika.

I am, Sir,

Your obedient servant,

R.B. Harvey

SECRETARY.

C. O.

Mr. Freeston 11/12

Mr.

[redacted].

Mr. Parkinson.

Mr. Tomlinson.

y Sir C. Bottomley. 11.12 for

Sir J. Shuckburgh.

Permt. U.S. of S.

Parly. U.S. of S.

Secretary of State.

4th. for Sir C. Bottomley

AIR MAIL

11 DEC 1934

DRAFT.

Brig. Gen. Sir Joseph Byrne
G.C.M.G. K.B.E. C.B.

My dear Byrne

No doubt you have seen the text of Major Gregor's article in the Times of Nov. 28th. I enclose a copy of an "anonymous" counterblast which was afforded equal prominence in today's issue.

Yours sincerely

(Signed) W. C. BOTTOMLEY.

6

13

5th December 1934.

Dear Mr. Mill,

Your letter of the 30th of November. I am sorry it has taken some little time to provide the information for which you asked, but I now enclose a note which has been prepared in answer to the questions in the list appended to your letter, together with a copy of the Annual Trade Report of Kenya and Uganda referred to in the answer to Question 8.

Yours very truly,

C.J. Mill, Esq.

14

1. £17,205,600.

2. The distinction is arbitrary but the following analysis is suggested:-

(a) <u>Reproductive.</u>

(i) Lent to Kenya-Uganda Railway*	£13,251,808
(ii) Lent to Land Bank	500,000
(iii) Lent to Local Authorities	530,847
(iv) Water Supplies	225,736
	£14,508,391

(b) <u>Unreproductive.</u>

(i) Public buildings.	£1,558,198
(ii) Roads, bridges, etc.	328,275
(iii) Repayment of advances from revenue	600,000
(iv) Miscellaneous, including expenses of issue etc.	210,736
	£2,697,209

3. In the case of the items shown under (a), (i) (ii) and (iii) above full interest and sinking fund charges are paid to the Kenya Government by the Kenya-Uganda Railway*, the Land Bank Board and the Local Authorities respectively. As regards (iv), Government receives about £40,000 (gross) per annum from water supply undertakings.

---

* The Kenya-Uganda Railways and Harbours Administration is controlled not by the Government of Kenya but by a High Commissioner for Transport, advised by Railway and Harbour Councils on which Uganda as well as Kenya is represented. Though ultimate responsibility for the financial stability of the Railway rests with the Govts. of Kenya and Uganda, the legislatures of these territories have no control over the details of Railway finances. The Railway cannot borrow on the open market; its capital requirements have been met by loans raised on its behalf by the Govts. of Kenya and Uganda, the full service of these loans being reimbursed to these Govts. by the Railway out of earnings.

4. 5'063 % (+ 1% Sinking Fund contribution).

5. (Based on 1934 Estimates).

(a) Irreducible (Nett debt charges, Pensions, etc.)	£353,819
(b) Departmental	£1,757,741
Total nett expenditure	£2,111,565

6. (Based on 1934 Estimates)

Customs and Excise	£647,500
Native direct taxation	571,257
Non-native direct taxation	86,000
Salaries levy	46,500
Various taxes, licences, etc.	254,725
Earnings of Govt. Departments; Payments for Govt. services; Rent and royalties from Govt. property.	237,195
Self-balancing Departments.	196,596
Sales of Govt. land and property	36,875
Miscellaneous	46,299
	£2,122,49[illegible]

7. Domestic exports from Kenya in 1931-33 were valued (F.O.B. Kenya Port) at £2,343,874, £2,280,962, and £2,246,999 respectively.

8. Kenya forms part of a Customs Union with Uganda and the Tanganyika Territory and shares a common Customs Administration with Uganda. It will be seen from the annexed Trade Report that accurate trade statistics for Kenya (especially in relation to imports) are not available.

(e.g. page 27)

The

The total imports and exports of Kenya and Uganda (including goods in transit and trans-shipment) were valued at:-

	Imports.	Exports.
1931	£6,037,706	£5,786,392
1932	£5,089,233	£6,085,862
1933	£5,164,243	£7,572,907

9. (a) The market value of Sinking Funds as at 30th November, 1934, in respect of £17,205,600 Public Debt was £1,295,727.

(b) The assets shewn in the Colony's balance sheet on the 31st September, 1932, amounted to £1,458,144.

This figure may be analysed as follows:-

(i)	Loan Balance (allocated but not yet spent)	£656,367
(ii)	Investments held against Savings Bank Deposits and similar Trust Accounts.	£311,506
(iii)	Loans and advances to European Agriculture	£222,466
(iv)	Unallocated Stores	£56,378
(v)	Various (including working cash)	£210,425
		£1,458,144

10. No. To liquidy the Sinking Funds (9 (a) above), or to divert to other uses the unspent Loan Balances (9 (b) (i)) would amount to a breach of faith with the stockholders. Objections of the same order would prohibit any proposal to utilise funds under (b) (ii). The monies advanced to European farms under (b) (iii) are theoretically subject to recall but could not at present be realised without serious damage to the main industry of the Colony. The monies shown under

(b)

(b) (iv) and (v) have already been reduced to the lowest possible amounts.

11. The external exchange value of the East African shilling is fixed by the price at which the East African Currency Board is prepared to buy and sell sterling for East African shillings. The first objection to any form of devaluation is that the Currency Board would have extreme difficulty in explaining to people in the United Kingdom why, having given them East African shillings at par for sums in sterling, they would only be prepared to give them smaller amounts of sterling for later transactions in the opposite direction. Incidentally, such a change could not be made for Kenya alone; it would have to apply also to Uganda and Tanganyika Territory.

The second objection is that an arbitrary alteration in the exchange value of the East African shilling would produce a series of violent stresses within the economic structure of the country. There is at present a certain relation between the prices of all products of the East African Territories whether they are export products or products of local use and between these products and the local currency. An individual owning 100 shillings knows that he can get with it so much yams, millet, maize, bananas, coffee or cotton and if he has a particular area to cultivate he can calculate more or less roughly what his yield will be according as he puts it under various crops. It is by reference to the value of local currency in local commodities that such things as wages are fixed.

If there was a sudden alteration in the exchange value of the local currency there would be an immediate

alteration

alteration in the value of certain of these commodities but not of others. As the tendency of employers would be to keep wages unchanged the first effect would be to lower the standard of living of the wage-earners, but this, after a period of industrial unrest which might be acute, would probably be rectified by a general rise of wages which would do much to nullify the initial advantages gained by the employers in the reduction of their costs.

The third objection is that the increase in the value of export commodities in terms of local currency would tend to divert production from commodities of domestic consumption to export commodities. This would have two effects. In the first place it would reduce the supply of domesticly consumed products and so tend to increase their price in terms of local currency. In the second place it would stimulate the export of export products (particularly of annual crops) and thus throw extra supplies on the world market and so depress the world price of these commodities and thus check the rise in local prices or even completely prevent it. (The last depreciation in the value of New Zealand currency was followed by an actual fall in the price of New Zealand butter <u>in terms of New Zealand currency</u> owing to the extra supplies thrown on the market.)

The fourth objection is that the depreciation of the local currency would increase the burden, in terms of that currency, of the sterling charges (debt service, pensions and other expenses) of the East African Governments and the Railway Administration, and this burden would have to be met by an increase in taxation which would be applicable to everyone in the Territories

whether

whether they were producing for export or not.

The fifth objection is that there would be a similar increase in the burden of all sterling charges (mortgages, family remittances, etc.) of private individuals.

It will be appreciated that the subject is one which really requires very much fuller treatment than is possible within the limits of a brief note, but the above are the salient objections.

1. £17,205,600.

2. The distinction is arbitrary but the following analysis is suggested:-

(a) Reproductive.

(i) Lent to Kenya-Uganda Railway*	£13,251,808
(ii) Lent to Land Bank	500,000
(iii) Lent to Local Authorities	530,847
(iv) Water Supplies	225,736
	£14,508,391

(b) Unreproductive.

(i) Public buildings.	£1,558,198
(ii) Roads, bridges, etc.	328,275
(iii) Repayment of advances from revenue	600,000
(iv) Miscellaneous, including expenses of issue etc.	210,736
	£2,697,209

3. In the case of the items shown under (a), (i) (ii) and (iii) above full interest and sinking fund charges are paid to the Kenya Government by the Kenya-Uganda Railway,* the Land Bank Board and the Local Authorities respectively. As regards (iv), Government receives about £40,000 (gross) per annum from water supply undertakings.

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* The Kenya-Uganda Railways and Harbours Administration is controlled not by the Government of Kenya but by a High Commissioner for Transport, advised by Railway and Harbour Councils on which Uganda as well as Kenya is represented. Though ultimate responsibility for the financial stability of the Railway rests with the Govts. of Kenya and Uganda, the Legislatures of these Territories have no control over the details of Railway finance. The Railway cannot borrow on the open market; its capital requirements have been met by loans raised on its behalf by the Govts. of Kenya and Uganda, the full service of these loans being reimbursed to those Govts. by the Railway out of earnings.

4. 5'063 % (+ 1% Sinking Fund contribution).

5. (Based on 1934 Estimates).

(a)	Irreducible (Nett debt charges Pensions, etc.)	£353,819
(b)	Departmental	£1,757,741
	Total nett expenditure	£2,111,565

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Self-balancing Departments.	196,596
Sales of Govt. land and property	36,875
Miscellaneous	46,299
	£2,122,4[illegible]

7. Domestic exports from Kenya in 1931-33 were valued (F.O.B. Kenya Port) at £2,343,874, £2,280,962, and £2,246,999 respectively.

8. Kenya forms part of a Customs Union with Uganda and the Tanganyika Territory and shares a common Customs Administration with Uganda. It will be seen from the (e.g. page 27) annexed Trade Report that accurate trade statistics for Kenya (especially in relation to imports) are not available.

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The total imports and exports of Kenya and Uganda (including goods in transit and trans-shipment) were valued at:-

	Imports.	Exports.
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1933	£5,164,243	£7,572,907

9. (a) The market value of Sinking Funds as at 30th November, 1934, in respect of £17,205,600 Public Debt was £1,296,727.

(b) The assets shown in the Colony's balance sheet on the 31st September, 1932, amounted to £1,458,144.

This figure may be analysed as follows:-

(i)	Loan Balances (allocated but not yet spent)	£658,367
(ii)	Investments held against Savings Bank Deposits and similar Trust Accounts.	£311
(iii)	Loans and advances to European Agriculture	£2[illegible]
(iv)	Unallocated Stores	£[illegible]
(v)	Various (including working cash)	£[illegible]
		£1,458,144

10. No. To liquify the Sinking Funds (9 (a) above), or to divert to other uses the unspent Loan Balances (9 (b) (i)) would amount to a breach of faith with the stockholders. Objections of the same order would prohibit any proposal to utilise funds under (b) (ii). The monies advanced to European farms under (b) (iii) are theoretically subject to recall but could not at present be realised without serious damage to the main industry of the Colony. The monies shown under

(b)

(b) (iv) and (v) have already been reduced to the lowest possible amounts.

11. The external exchange value of the East African shilling is fixed by the price at which the East African Currency Board is prepared to buy and sell sterling for East African shillings. The first objection to any form of devaluation is that the Currency Board would have extreme difficulty in explaining to people in the United Kingdom why, having given them East African shillings at par for sums in sterling, they would only be prepared to give them smaller amounts of sterling for later transactions in the opposite direction. Incidentally, such a change could not be made for Kenya alone; it would have to apply also to Uganda and Tanganyika Territory.

The second objection is that an arbitrary alteration in the exchange value of the East African shilling would produce a series of violent stresses within the economic structure of the country. There is at present a certain relation between the prices of all products of the East African Territories whether they are export products or products of local use and between these products and the local currency. An individual owning 100 shillings knows that he can get with it so much yams, millet, maize, bananas, coffee or cotton and if he has a particular area to cultivate he can calculate more or less roughly what his yield will be according as he puts it under various crops. It is by reference to the value of local currency in local commodities that such things as wages are fixed.

If there was a sudden alteration in the exchange value of the local currency there would be an immediate

alteration

alteration in the value of certain of these commodities but not of others. As the tendency of employers would be to keep wages unchanged the first effect would be to lower the standard of living of the wage-earners, but this, after a period of industrial unrest which might be acute, would probably be rectified by a general rise of wages which would do much to nullify the initial advantages gained by the employers in the reduction of their costs.

The third objection is that the increase in the value of export commodities in terms of local currency would tend to divert production from commodities of domestic consumption to export commodities. This would have two effects. In the first place it would reduce the supply of domesticly consumed products and so tend to increase their price in terms of local currency. In the second place it would stimulate the export of export products (particularly of annual crops) and thus throw extra supplies on the world market and so depress the world price of these commodities and thus check the rise in local prices or even completely prevent it. (The last depreciation in the value of New Zealand currency was followed by an actual fall in the price of New Zealand butter in terms of New Zealand currency owing to the extra supplies thrown on the market.)

The fourth objection is that the depreciation of the local currency would increase the burden, in terms of that currency, of the sterling charges (debt service, pensions and other expenses) of the East African Governments and the Railway Administration, and this burden would have to be met by an increase in taxation which would be applicable to everyone in the Territories

whether

whether they were producing for export or not.

The fifth objection is that there would be a similar increase in the burden of all sterling charges (mortgages, family remittances, etc.) of private individuals.

It will be appreciated that the subject is one which really requires very much fuller treatment than is possible within the limits of a brief note, but the above are the salient objections.

11. The external exchange value of the East African shilling is fixed by the price at which the East African Currency Board is prepared to buy & sell sterling for East African shillings. The first objection to any form of de-valuation is that the Currency Board would have extreme difficulty in explaining to people in the U. K. why, having given them East African shillings at par for sums in sterling, they ~~were~~ would only prepared to give them smaller amounts of sterling for later transactions in the opposite direction. Incidentally such

a change could not be made for Kenya alone; it wd have to apply also to Uganda & Tanganyika Territory.

The second objection is that an arbitrary alteration in the exchange value of the East African shilling would produce a ~~[illegible]~~ series of violent ~~[illegible]~~ stresses within the economic structure of the country. There is at present a certain relation between the prices of all products of the East African Territories whether they are export products or products of local use & between those products & the local currency. An individual owning 100 shillings knows that he can get with it so much yams, millet, maize, bananas, coffee or cotton & if he has a particular area to cultivate he can calculate more or less roughly what his yield will be ~~[illegible]~~ according as he puts it under various crops; it is by reference to the value of local currency in local commodities that such things as wages are fixed.

If there was a sudden alteration in the exchange value of the local currency there wd be an immediate alteration in the value of certain of these commodities but not of others. As the ~~[illegible]~~ tendency of employers would be to keep wages unchanged the first effect would be to lower the standard of living of the wage earners, but this after a period of industrial unrest which might be acute would probably be rectified by a general rise of wages which wd do much to nullify the initial advantages gained by the employers in the reduction of their costs.

The third objection is that the increase in the ~~local~~ value of export commodities in terms of local currency would tend to divert production from ~~domestic~~ ~~[illegible]~~ to export commodities.

Commodities of domestic consumption

This wd have two effects. In the first place it would reduce the supply of domestically consumed products & so tend to increase their price in terms of local currency. In the second place it would stimulate the export of export products (particularly of annual crops) & thus throw extra supplies on the world market & so depress the world price of these commodities & thus check the rise in local prices or even completely prevent it. [The last depreciation in the value of New Zealand currency was followed by an actual fall in the price of New Zealand butter in terms of New Zealand currency owing to the extra supplies thrown on the market.]

The fourth objection is that the depreciation of the local currency would increase the burden, in terms of that currency, of the sterling charges (debt service, ~~other sterling~~ pensions & other expenses) of the ~~Kenya Govt~~, & this burden would have to be met by an increase in taxation which would be applicable to every-one in the Territories whether they were producing for export or not.

East African Governments and the Railway Administration

The fifth objection is that there would be a similar increase in the burden of all sterling charges (mortgages, family remittances etc.) of private individuals.

It will be appreciated that the subject is one which really requires very much fuller treatment than is possible within the limits of a brief note, ~~[illegible]~~ but the above are the salient objections. ~~which [illegible] [illegible] study of the proposal~~

5A 27

4, MILLBANK,
WESTMINSTER,
LONDON, S.W. 1.
(VICTORIA 7730)

3rd December, 1934.

Dear Freeston,

In accordance with your request on the telephone, I give below the value, at the mean market price on the 30th November, of the sinking funds of the undernoted Kenya loans.

Year of Issue	Amount of stock outstanding	Rate of Interest	Redemption	Value of Sinking fund
				£
1921	5,000,000	6%	1946-56	924,131
1927	5,000,000	5%	1948-58	207,724
1928	3,500,000	4½%	1950	142,796
1930	3,400,000	4½%	1961-71	17,800
1933	305,600	3½%	1957-67	3,276

1,295,727

Yours sincerely,

A W Allen

L.B.Freeston Esq.,

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5 18

THE TIMES

1785

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November 30, 1934.

Dear Mr. Boyd,

You were good enough to say yesterday that if I were to specify the points on which I would like information you would be so kind as to provide it. I am taking advantage of your kind offer by attaching hereto a list of questions. I send you in anticipation my grateful thanks.

Yours faithfully,

C. J. Kirk

CITY EDITOR.

E. B. Boyd, Esq.,
The Colonial Office,
Downing Street,
S. W. 1.

KENYA

1 Latest debt total:-

2 How much is reproductive:-

3 To what extent this reproductive expenditure is self-supporting:-

4 Average rate of interest on total debt:-

5 Current cost of Government services:-

6 How mubh is met by taxes and duties of all kinds:-

7 Value of exports:-

8 Total trade:-

9 Amount of sinking funds or other financial resources:-

10 Is it possible to re-liquify these funds in order to ease Budget burden, thus avoiding new tax burdens and enabling present burdens to be reduced?:-

11 What objections/

30

END

What objections are there to depreciating the value of Kenya currency as Australia and other primary producing countries have done, but retaining at the same time the link with sterling?:-

....