EAST AFR. PROT

1769 Secret

C.O.
1769
Reg^d 9 JAN 20

[...]rthey K.C.M.G., C.B.
[Ma]jor-General Sir E.

1920

7th January

Currency.

[L]ast previous Paper.

Sec. C.A.S.
1511

Submits obsns on scheme proposed. Is unable to support.

See on G/1770

[illegible] 10.1.20

[illegible] 10/I/20

Col. Amery [illegible] 12.1

[illegible] to Sir E. Northey for [illegible] 12.1.20

[illegible]

Next subsequent Paper.

[illegible]

Confidential

77 Carlisle Mansions
Victoria London S.W.1
7th January 1919.

7

Sir,

I have the honour to acknowledge your letter No. 72911/1919 of the 30th Dec last enclosing a copy of your letter of same date and number addressed to the Secretary to the Treasury, and copy of a Memorandum by Mr Ezekiel on the subject of new currency in the East African Protectorate. I beg to make the following remarks, which, with Major Grogan's opinions forwarded separately, will, I hope, be seriously considered before a decision is arrived at.

2. I acknowledge, as I did at the Conference, that the proposed solution has the following advantages:

(a) Stability of exchange will be secured.
(b) Secrecy will be avoided.
(c) A good system of decimal coinage, from the £1 downwards, will be established.

But, I am convinced, after most careful thought, that there are vital reasons why these proposals should not be adopted if the true interests of the Protectorate are to be safeguarded.

3. The scheme would be simple of execution if the Rupee remained at about it's present value, but if the Rupee were to rise far above two shillings before the date of commencement, the scheme would be subject to the same objections as the original one and four penny proposals were: on the other hand we should look extremely foolish with a fixed two shilling Rupee if in the future silver fell to such an extent as to bring the Rupee below 2/-.

4. When the Currency order in Council, 1905, was framed establishing the sovereign as legal tender for fifteen Rupees, the escape of the Rupee from control was not for a moment anticipated; the obvious intention was that the Rupee should remain permanently one fifteenth of a Sovereign — the legal unit of value. On this understanding all local contracts were made. The Rupee, however, by its rise in value has ceased to be merely a token coin, and has become substantive money: administratively

administratively, this should have been prevented: the omission to do so has landed us in the present impasse. The solution which seeks to find a way out by altering the fractional relation of the Rupee to the Pound sterling is surely not the right one. The Rupee should have been kept at 1/15th of £1; this certainly would have been done if the consequences of not doing so had been foreseen: therefore the correct solution is to revert to the position that would have been established if correct action had been taken.

5. The Florin proposal now before us is open to vitally serious objections. The Rupee is to be stabilised at an inflated value, fifty per cent above the one fifteenth, which is the fractional value fixed by law and still employed in the Protectorate financial accounts. Such a stabilization must arbitrarily and permanently system ~~the present [illegible]~~ fix the cost of native labour, local produce, nominal services, and in general the cost of production and of living, at such a greatly enhanced value that East African exports could not hold their own in the world's markets. Sisal as an industry would be doomed at once: it is doubtful whether any of the young industries of the country could last. They were not making 50 per cent profit before the Rupee rose: they are hanging on in hopes of stabilization at 1/15th, which they have every right to expect.

6. Publication of the scheme when the Indian Rupee is above 2s/- would lead to immediate foreclosure on mortgages and calling in of overdrafts, creditors obtaining repayment at top price. The mean between the value of the Rupee and 2s/- would not operate in respect of old debts, though it might apply to new contracts. The settlement of a debt incurred when the Rupee was at 1s 4d would lead to a loss to the debtor of anything up to 80%: an overdraft could not be liquidated at less than 50% loss. The normal debtor would be insolvent: prewar mortgages on two thirds value now represent more than the whole value of a property: most settlers have financed their losses through the Banks, never anticipating a sudden forced call up at top price. They will be ruined, and with them the country: the local branches of the Banks themselves will suffer in consequence.

7. The strongest local opposition to the scheme is a foregone conclusion: if it is introduced the pre war settler will be ruined, and the new settlers must fall with him: the local cost of production will be prohibitive and capital will be kept out of the country. The employer will know that his wages bill, and all local costs, are permanently increased by 50%: chaos must result which will set back industry for years. If carried into effect this scheme must be put forward as the device of experts in England: no East African resident could support it, and I deeply and respectfully regret that I must oppose it.

8. That the scheme stands on an unsound basis is amply demonstrated by the extraordinary and anomalous suggestion that official salaries shall be paid at fifteen florins to the Pound sterling: an official whose salary is £600 will receive £900! The alteration of the fractional relationship of the Rupee to the Pound can have no possible bearing on the value of an official's services as expressed in sterling: he does not become more valuable because the metallic value of silver has chanced to rise out of relation to all other values: but it is obvious that as he is now paid in Rupees at 15 to the £1 he will refuse to take only ten of the new Rupees: for these reasons alone the scheme is unworkable.

9. If the scheme is forced on us, let us call the coin a florin, pure and simple, and not pretend it is an East African Rupee, avoiding the confusion of calling one tenth of a Pound a Rupee in a country whose laws have made the Rupee 1/15 of £1.

10. As we cannot yet get sufficient Sovereigns, I urge that the solution is to establish the Bradbury as legal tender for one sovereign or fifteen Rupees: the Indian Rupee will automatically drift back to India: we must replace it by a debased token coin of One Rupee = one fifteenth of a sovereign: its size and colour may matter to the native, but not its weight or brightness. I believe all East Africans who live in the Protectorate agree with me as to this solution, except the Bank Managers who fear to lose by it.

I have the honour to be, Sir,
Your most obedient humble servant,
Edward Northey Major General
Governor E.A.P.

Right Hon'ble
Under Secretary of State
for the Colonies.
Downing St.