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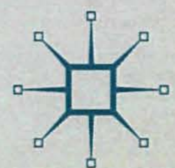
BRITISH IMPERIALISM AND THE MAKING OF COLONIAL CURRENCY SYSTEMS

WADAN NARSEY



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Covering the colonial Empire (including The West Indies, India, Singapore, West Africa and East Africa), this book is a detailed revisionist history of the British imperial manipulations of colonial currency systems to facilitate the rise of sterling to world supremacy via the gold standard, and to slow its eventual decline after World War I. Official internal correspondence is used to show that Britain typically acted against the advice of colonial commercial interests, colonial governments, and even officials in the Colonial Office, in order to replace international currencies (including gold and sterling itself), with localised silver currencies. The local currencies were backed by gold and sterling reserves in London, under the total control of the British Treasury and the Bank of England. In the process liquidity was provided to the London money market, and cheap finance to the British Government.

This book provides a new perspective on theories of imperialism, colonial money and colonial underdevelopment, with possible geostrategic historical lessons for the US dollar and emerging global currencies such as the Chinese renminbi and the euro.

Wadan Narsey is former Professor of Economics at The University of the South Pacific, Fiji, and currently Adjunct Professor at The Cairns Institute, James Cook University, and at Swinburne University, Australia. A former Fiji parliamentarian, he has written on poverty, labor markets and gender in the Pacific, the political economy of Fiji, and is a regular columnist for the *Fiji Times*, with his personal website *NarseyOnFiji*.

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British Imperialism and the Making of Colonial Currency Systems

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Former Professor of Economics, University of the South Pacific, Fiji

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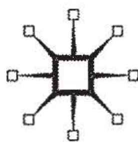

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Foreword

How did Great Britain manage to sustain its financial supremacy in the international economy that expanded so rapidly in the latter part of the nineteenth century, while also maintaining its commitment to keeping the pound sterling fully convertible into a fixed amount of gold? Somehow it managed this despite the gold reserves of the Bank of England lagging increasingly behind those of its competitors for trade and empire: France, Germany, and the United States. Various answers to this nagging question have been proposed by analysts over the years, starting with Walter Bagehot's classic work, *Lombard Street: A Description of the Money Market* (1873). Financial historians continue to devise more answers based on intensive analysis of the financial data that were generated by the financial press and by delving into the financial archives of leading banks and investment houses. Most of them propose some form of ongoing financial innovations, whether gold devices, central bank cooperation, or *de facto* gold exchange standards to explain how Britain managed this remarkable run of financial fortune. (*Mea culpa* as well!)

Wadan Narsey proposes an alternative, based on his research into the recondite archives of the Public Records Office, Kew (London). Simply put, Britain husbanded its gold reserves by keeping its subordinate colonies on silver standards, circulating token coins containing less-than-market value of precious metal. This policy began with the Glorious Revolution of 1688–89 and the Great Recoinage that followed in 1696; it continued thereafter right up to the height of the British Empire with the African colonies in 1884. The breakaway of the American colonies and their later success with full-bodied silver and gold coins, however, forced the British government to allow similar coinages in the self-governing, white-settled colonies, while keeping Asian and African colonies on token currencies, backed unnecessarily by excessive holdings of British government securities.

The trauma of the Baring Crisis of 1890 put the Bank of England and Treasury into crisis management mode, moreover, leading to the general imposition of currency boards in all the dependent British colonies, currency boards that continued to prove their usefulness for financing the home country through two World Wars and the Great Depression. By keeping 110% backing for the colonial currencies in the form of short-term British government securities and liquid deposits with the Bank of England, the currency boards in the dependent colonies helped sustain home government finances but stifled the colonial economies. The later successes of currency boards in Hong Kong and Singapore after de-colonization are due

to their freedom from imperial control, not the inherent virtues of fully backed currencies.

Political forces are always present in the fields of money and finance, and Professor Narsey's research shows how imperial priorities took precedence over native desires for economic development throughout the history of British colonial currency systems. This was an undesirable, but fully intended, consequence of imperial financial innovations in the British colonies.

Professor Larry Neal
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Preface

This book is based on a DPhil I began in 1981 at the Institute of Development Studies (Sussex University) on Fiji's colonial and post-colonial monetary and banking system. However, initial historical research at the Public Records Office (Kew) turned up enough anomalies in existing accounts to warrant a 'leap in the dark' to a topic covering the entire British colonial empire. Returning to Fiji in 1984, it took another four years to complete the thesis, battling political distractions such as military coups. I thank The University of the South Pacific for giving me study leave, and I thank Charles Harvey and David Evans, my supervisors at IDS.

I regret that I wasted Palgrave Macmillan's 1990 offer to publish the book because of my preoccupation with local development issues. It is a minor miracle that 25 years later this study has not been superseded by other works, while some have enhanced my book.

This last revision was begun while I was an adjunct professor at The Cairns Institute (James Cook University, Australia), an appointment assisted by Professor Hurriyet Babacan (then director of TCI) and Professor Robbie Robertson (Head of Social Science at JCU). Based in Fiji, I am grateful to the online services of the JCU Library.

Professor Salim Rashid was kind enough to put me in touch with Professor Larry Neal (Emeritus Professor of Economics, University of Illinois) who I cannot thank enough for his valuable advice on restructuring the book and on recent new sources, for writing the Foreword, and generally facilitating this publication with Palgrave Macmillan. I am grateful for the efficient facilitation of the editorial and production activities by Vidhya Jayaprakash (Newgen Knowledge Works Pvt Ltd), and the excellent copy editing by John Bowdler (Bowdler's Editorial).

During the course of my research I appreciated British academics (such as J. Mars, Arthur Hazlewood and Thomas Balogh) who wrote bravely about Britain's exploitation of colonies. I appreciate today the many honest British imperial civil servants who opposed their superiors, when imperial decisions were not in the interests of the colonized peoples, and left a 'paper trail' so useful to me in clarifying the true nature of imperial decision-making. It is a lesson for civil servants in today's Third World, including Fiji.

I remember that 25 years ago, my wife Sin Joan Yee and three sons (Siddhartha Weih-jen, Sugata Weih-men and Amitaabh Weih-len) took on more than their fair share of the burdens of a young family, while I was struggling in Fiji, to complete the original thesis. I will always owe a debt

to my parents, Maniben and Narsey Bhai Dullabh, who sacrificed much for their children's education.

I remember my good Fijian friend, the late Nand Kisor Chetty, who used to vainly pester me to publish my book. I thank Kurt Schuler (Senior Fellow at the NY Centre for Financial Stability and a currency board scholar) for his recent encouragement to publish my thesis which he read twenty years ago.

I dedicate this book to five individuals. The first two are Poet Laureates John Masefield ("A University, Splendid, Beautiful and Enduring") and Nobel Laureate Rabindranath Tagore ("Where the Mind Is without Fear"). Their words guided me for decades while teaching at The University of the South Pacific. The third was much more than a mere economist: B. R. Ambedkar was one of the authors of the Indian constitution and more importantly became a heroic leader of the 'untouchables' in India, where universities are named after him. The fourth is Aung Sang Suu Kyi, Burmese freedom fighter who after decades of struggling has finally achieved a democratic victory in the 2015 elections and will hopefully form government in early 2016 ("one has no right to hope without endeavor"). The fifth dedication is to my wife, Sin Joan Yee, who for decades has stoically put up with all the social fall-out resulting from my free economic, political and social commentaries, not easy in a small society like Fiji where she also has led her own independent professional and public life.

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List of Abbreviations

CA	Crown Agents
CEAC	Colonial Economic and Advisory Committee
CO	Colonial Office
EACB	East African Currency Board
EEA	Exchange Equalization Account
JCF	Joint Colonial Fund
PRO	Public Records Office (Kew Gardens, London)
WACB	West African Currency Board

1
Introduction: The Accepted History of British Colonial Currency Systems and the Key Questions

Introduction

It might be surprising that anything substantially new can be written about the monetary and financial impact of British imperialism. Yet the standard authoritative works on the British Empire, such as Lawrence James' (1994) (*The rise and fall of the British Empire*), Niall Ferguson's (2002) (*Empire: the rise and demise of the British world order and the lessons for global power*), Robert Johnson's (2003) (*British Imperialism*) and Philippa Levine's (2007) (*The British Empire: sunrise to sunset*) do not have a single reference to currency or money in their indexes. The one exception is *British Empire*, edited by P. J. Marshall (1996) which not only has six references to 'currencies' in its index, but a chapter by D.K. Fieldhouse (1996:111) has a box titled 'Money – an imperial tool?' This book is effectively an expansion of that one question, tracing the historical evolution of colonial currency systems throughout the British Empire, over a period of some 300 years to the end of the 1950s.

This book is not an attempt to answer grand questions such as 'was British imperialism positive or negative for the colonized countries and people', as was the objective of Davis and Huttenback (1986) and as discussed further by Niall Ferguson (2002, 2003). Rather, it presents a long-term historical account of imperial policies on the most fundamental and essential instruments of capitalist market processes in colonies – currency and money, and associated institutions such as banks and central banks – whose long-term impact on capitalist growth and development may be theorized even if virtually impossible to quantify and summarize in cliometric studies.

In the process much material is presented, which will no doubt be used in the imperialism debate by those more qualified and interested. In exploring the internal imperial debates over changes in colonial currency policies, the book also gives many pointers on the likely developmental impacts on the colonial economies and people, as well as clarifying the roles of imperial

interests, British Government (Colonial Office and British Treasury), the Bank of England and the City beyond.

A new chapter, on the contrasts with the imperial relationships and experiences of the white settler dominions (Chapter 9) widens the scope of the normal economic debate to include possible alternative paths for colonial development and the limitations created by the role of racism in imperial policy, as explored by Olivier Accominotti et al (2009).[1]

The London institutions influencing colonial currency policies

Ordinary readers need to be aware of the legal positions of the several institutions that feature prominently in this book in relation to colonial currency changes. There is little doubt about the theoretical responsibility of colonial governments and the Secretary of State for Colonies in London, for colonial welfare. However, grey areas emerged when it came to the Crown Agents who were supposed to act in the interests of the colonial governments, but were supervised by the Secretary of State. To what extent did the Secretary of State for Colonies (and the Secretary of State for India) at critical times become subordinate to the British Treasury on colonial matters? To what extent did the Treasury at critical times become subordinate to the Bank of England?

The Bank of England was in this period a profoundly strange beast, supposedly private, but also fulfilling a public role as the accepted regulator of the London money market and critical in the issue of British government debt. Its shareholders and directors faced the perpetual tension that its profits were considerably lower the higher were the reserves it kept for the system at large. By contrast, other private financial institutions in London enjoyed considerably greater profits without the public responsibility that the Bank had for holding reserves that maintained sterling as world currency and the City as the center of world finance.[2]

At the turn of the century when the currency boards were being created, the Bank of England was by far the most powerful bank in Europe and the world, and the financier of the British Government for centuries, in war and peace. For the Bank of England the value of colonial sterling reserves cannot be underestimated, and by extension also for the other British banks who would otherwise have had to increase their reserves with the Bank of England to keep their systems going.

The role of the City in financing world trade and the holder of the world's savings also depended on the confidence that the world had in the Bank of England ensuring the convertibility of sterling.

The British Government also had its own tensions with the Bank, which was its main lending institution, but also complemented the British Government's international political strength which was dependent in turn on that of the City in world finance. Bagehot (1873) notes the extraordinary

silence of Parliament and the public on the role of the Bank of England and its powerful directors. The Bank also had its tensions with the other commercial banks, who expected the Bank to be a lender of last resort, sometimes when the Bank would rather let an irresponsible bank collapse.

The key changes

The history of currency and money in British colonies is as complex as their political histories. Some colonies had been wrested from other imperial powers who had already circulated their own national and international currencies; some, even after British colonization, continued to have strong economic links with non-British territories and their currency systems through 'currency areas'; and there were some colonies where the authorities chose to make use of existing non-British units of account while changing the inherent nature of the currencies.

While Britain had adopted the gold standard for itself well before the 1816 formal legislation, one major conundrum was that throughout the nineteenth century and well into the twentieth century, colonial requests for gold standards similar to Britain's own were rejected by imperial authorities and where they already existed, were eliminated. While most British colonies had ended the eighteenth century with non-British currencies (such as Spanish dollars and doubloons, Indian gold pagodas or rupees), these were replaced over the first half of the nineteenth century by silver tokens minted under British authority: British Indian rupees, British dollars, or most commonly, British sterling silver tokens.

The established histories identify two nineteenth century colonial currency policies preceding the currency board stage. First, there was an 1825 change of policy completed between 1838 and 1844, supposedly designed to ensure that the British shilling circulated 'wherever the British drum was heard' (Hopkins, 1970, p.104). Second, there was a 1838 replacement of this supposed 'monetary jingoism' by a 'more neutral policy' which acknowledged the existence of 'currency areas'. Hopkins argued that this change was 'fully in accord with the mid-Victorian view of peaceful penetration; if sterling replaced other currencies, as in some parts of the world it did, well and good, but no direct pressure was exerted to ensure that this happened'. According to this view, in some parts of the colonial empire, the authorities supposedly found that it was impractical to circulate British sterling based on the gold standard. In India, Ceylon, Uganda and Mauritius, they found their solution to lie in the silver rupee. In others like Hong Kong, Singapore and Malaya, they minted silver dollars. One paradox to be explained is that Britain herself adopted a gold standard, while imposing silver standards and coins on her colonies, British and non-British.

At the beginning of the twentieth century, the imperial authorities then also eliminated the British silver token currency, which had been freely

circulating within and across colonies and even into foreign territories. Most colonies were moved towards the 'currency board' system. The currency board was formally established in British West Africa in 1912, following the Emmott Committee of Inquiry. This West African Currency Board (WACB) was then presented as a model for most other colonies throughout the British Empire. A similar system was formally established for the British East Caribbean colonies, even as late as 1950. Many monetary historians have described the colonial currencies as 'gold standard' or 'gold exchange standard' or 'sterling exchange standards', all descriptions challenged by this study as being inaccurate or outright wrong.

The essential features of the currency board were the following:

- the circulating coin had to be a distinct colonial silver *token* of unlimited legal tender;
- colonial currency could be issued only in exchange for sterling or gold;
- while ostensibly on gold exchange or sterling exchange standards, authorities insisted on a reserve of silver coins in the colony for the alleged 'local redemption' of colonial notes;
- the colonial currency was backed by at least 110% sterling and gold reserves held largely in London, as note guarantee funds, coin guarantee funds, gold standard reserves and exchange funds;
- for long periods of time, a minimum proportion of the reserves was required to be held in London as gold coins, although banned from circulating in colonies;
- London reserves were invested in cash at the Bank of England, British Treasury Bills, or sterling securities, mostly of the British Government;
- the colonies also accumulated Depreciation Funds to the value of 10% of the Note Guarantee Fund, supposedly to insure against depreciation of the securities;
- colonial government revenues bore the ultimate liability for redeeming all colonial currency.

There were clearly many solid advantages to the currency board system especially during periods of monetary instability. In the 1980s some monetary authorities, such as Singapore and Hong Kong, did experiment with re-establishing currency boards, but based on the US dollar, not sterling as originally. During the 1990s, there was a resurgence of international interest led by Professor Steve Hanke, Co-Director of the Institute for Applied Economics, Global Health and Study of Business Enterprise, at the Johns Hopkins University.[3] As part of this exercise, some central European countries also experimented with currency boards as a solution to the monetary instability and allegedly superior to central banks. Although this study ends in the 1950s, Chapter 8 has a section commenting on this book's lessons for the debate on these recent experiences.[4]

There are two conundrums associated with the imperial creation of the currency board system. The first was that Britain, despite having complete political, administrative and economic control over colonies, did not establish its own sterling currency as the colonial currency right from the time she had formalized that system for Britain in 1816. On the contrary, Britain rigidly opposed its introduction in her colonies, despite all the obvious advantages: the usual text-book functions of money would have been adequately satisfied; the colonies would not have required any separate foreign reserves, exchange rate, or currency authorities; and there would have been many advantages to colonial trade, both regional and international, of having a unified Empire-wide market, as well as a sterling currency accepted by all neighboring territories and globally, given sterling's role as world currency.

With respect to the first conundrum, Fieldhouse (1981:61,63) argued that there were three obstacles to Britain's currency being used in her colonies: 'First, European denominations were not necessarily suited to the needs of poor communities which needed coins representing very small values. Second, so long as coins had intrinsic metallic value and colonial paper money was not legal tender, it was necessary to transport large amounts of coin to settle balance of payments accounts. Third, many of the more advanced European possessions, particularly those in North Africa and Asia, had their own pre-colonial currencies which it would have been pointless and difficult to replace'. Fieldhouse concluded that for these and other (unstated) reasons, the British authorities opted for local but convertible colonial currencies, tied to that of the metropolis. These arguments are challenged by this study.

The second conundrum was that if sterling was not to be used in colonies, why were the colonial currency systems not modeled on Britain's own sterling system, as indeed frequently called for by British interests in colonies? While sterling had originally been a currency based on silver, the pound had *de facto* gone on to a gold standard from 1660. The British Mints were closed to silver from 1774 and in 1816, the British silver coins were made into tokens, with their legal tender limited to £2. From 1816 to 1914, a critical period for most of the colonial currency policies we discuss, the British pound was a *gold standard currency,* consisting of a circulation of Bank of England notes and gold sovereigns, with silver coins which were of limited legal tender. The Bank's notes had a fiduciary portion backed mostly by British Government securities, corresponding to the minimum normally required for local circulation, and referred to in currency board debates as the 'hard core'. Notes issued over this limit were required to be fully backed by gold. This fiduciary limit was set by the 1844 Bank Charter Act at around £14 millions and had only increased to about £20 millions by the twentieth century. However, after 1914, these limits were effectively circumvented by the issue of fiduciary Treasury notes whose circulation reached more than

£300 millions before 1918 and was allowed to grow along with the needs of the British economy.

Had similar policies been followed for colonies before 1914, they would also have had a gold standard currency (whatever its name) consisting of notes and gold coins, comparable to Britain's own gold standard. The 'hard core' of notes required for purely local circulation, which in colonies the authorities estimated to be around 80% of the total circulation, could have been backed by colonial government securities, and the remainder by gold or sterling. There would have been some elasticity in the issuing of currency, according to the growing needs of the economy and colonial government expenditure. While gold and foreign reserves would undoubtedly have been necessary, they would have been much less than 100% of the total currency circulation, and probably less than 50%, as the currency experiences of most colonies indicated, especially given the balanced budget policies enforced on colonies by Britain. This study shows that such systems were indeed often proposed by colonies (both colonial governments and private interests) but were also invariably rejected by the imperial authorities.

Studies of colonial currency systems have probably not tried to explain why they differed from Britain's partly because of a natural reluctance to compare economic conditions of 'underdeveloped' countries with those of 'developed' countries.[5] However, if the policies were significantly different in the same period, then this does need explanation. If the differences were the result of the *same principles* applied to *different colonial conditions*, then any undesirable features might be explained as the result of an inadequate imperial understanding of currency principles or colonial conditions. On the other hand, if the differences resulted from conscious decisions to not apply the same principles despite their suitability, then there are likely implications for the debates on imperialism and colonial underdevelopment.

Progressive evolution or monetary regression?

There are two broadly opposed sets of explanations for changes in British colonial currency policies. The first and the largest body of literature of which Fieldhouse (1981) is a leading exponent, suggests a natural 'stages' sequence of progressive monetary development akin to W.W Rostow's model of stages of economic development beginning with a primitive society and ending with a mature developed modern economy. Firmly rooted within neoclassical economic theory, this literature explains the colonial monetary history as one of modernization of primitive and inferior currency systems, with every successive currency being better able to satisfy the basic functions of money, leading to greater monetary integration of colonies with the metropolitan economy and world trade.

For instance, Letiche (1974:186–87) saw the first stage having a diversity of local media of exchange, appealing to the taste and convenience of the

local population; the second stage saw consolidation into a single unit and monetary standard based on coins; the coins then were gradually replaced by private and government bank notes, convertible into local legal tender; with the establishment of the currency board in the fourth stage, the notes became convertible into sterling in London; in the fifth and last stage, the colonial territories achieved political independence and established their central banks and completely controlled their currencies.

A second set of explanations sees colonial currency policies as manifestations of imperialist control of colonial economies, safeguarding the interests of the colonizing power rather than that of the colony. De Cecco (1974) and Nabudere (1981) are two good exponents of this view. Within this approach may also be situated much of the academic criticisms of the currency board system and the negative impacts on colonial welfare, that emerged during World War II and in the decade after. This debate is reexamined better in Chapter 8 following the historical evidence presented in this book.

A recent study quite relevant for this book is Helleiner (2003:163–4) who used a rational theoretic approach to explore four sets of possible motivations in the making of national money: transactions costs, macro-economic influence, seigniorage, and political identities. Helleiner argued that 'the desire to minimize transactions costs was linked more to a desire to foster intra-empire economic transactions as well as the construction of an export-oriented economy designed to serve the colonizing country'; that while monetary reforms may have bolstered seigniorage profits for local authorities, they undermined the local economic elite; that while monetary reforms were intended to bolster political identities, these were not nationalistic ones, but rather identities being promoted by the ideologies of imperialism; and that while monetary reform created inter-colonial currency blocs, they reflected not the usual objectives of currency unions, but imperialist goals of simplifying administrative rule and fostering inter-colonial commerce. Unfortunately, while Chapter 8 of Helleiner (2003) is titled, 'The monetary dimensions of imperialism: colonial currency reform' and the book is titled *The Making of National Money: territorial currencies in historical perspective*, there is no sustained historical analysis in the book to support his arguments.

This study, by exploring the detailed internal imperial official correspondence[6] revealing the motives behind imperial decision-making on colonial currency policies, will provide a solid historical foundation for Helleiner's theoretical conclusion that while some elements of colonial currency systems were common, others were different because colonial monetary reforms were driven by the interests of the imperial power rather than by those of local policy makers.[7]

This book may be seen as a 'revisionist' history of the origins and evolution of colonial currency systems throughout the British Empire from the beginning to its end around the 1960s. The new historical perspectives have a

powerful bearing on most issues academically debated about the origins, the logic and the imperial management of the currency board system formalized in 1912. The historical evidence clarifies the actual thinking and motives of the imperial decision-makers, principally the Colonial Office, but strongly directed by the Treasury and Bank of England driven by their own objectives and priorities. Also documented are the deliberate imperial attempts to influence academia in defense of imperial currency and monetary policies for colonies. In the process, a rich and detailed historical perspective has been presented on the monetary aspects of the British Empire and possible impacts on colonial development and underdevelopment, thereby informing the broader economic, historical and political debates on British imperialism.

The generalized misconceptions corrected[8]

To rebut each and every 'modernizing' explanation of British colonial currency systems would be tedious and repetitive. It is more useful to present a set of 'Generalized Misconceptions' which, while not present in all modernizing accounts, reasonably reflect the aggregate set of rationalizations to be found in previous histories of British colonial currency systems as far apart as West Indies, the Falklands, Singapore and Fiji.

As is usually the case, conclusions by some reliable historian who accepted imperial rationalization at face value are repeated by subsequent studies until it becomes dogma. Often the incorrect views appeared rational partly because they coincided with the general view that colonization was an economic process of 'progressive modernization' and partly, as this study shows, imperial authorities had eliminated the alternatives and restricted the choices for colonies.

The misconceptions are grouped under the sub-headings below, which broadly correspond to the chronology of colonial currency development, and the chapters in the book. This book shows that all these Generalized Misconceptions are wrong.

Pre-currency board changes

Generalized Misconception 1. In the nineteenth century, because of the colonies' lack of demand for higher valued gold, Britain eliminated all gold coins, British and foreign, and imposed silver currencies and silver standards based on silver reserves, preferred by colonies, and more suitable for poor countries, requiring coins of low value and denomination.

The contrary reality may be more accurately described as 'silver imperialism', by which Britain, in its own interest, itself adopted the gold standard or the gold exchange standard but in colonies eliminated gold circulations and standards where they existed, while simultaneously imposing depreciating silver on her colonies, either as silver standards or limited sterling exchange standards during the currency board period.

Contrary to the popular view, the transition of Britain to the gold standard was not an accidental or automatic process but the result of deliberate decisions by the imperial state, at least from 1717, on the relative valuations of gold and silver coins, to ensure that silver did not re-establish itself in Britain. It was well recognized that gold's advantage of savings in weight and volume per monetary unit was relatively unimportant in an age of paper currency and bank deposits.

The imperial authorities consciously rejected a silver standard for Britain itself, arguing that silver had historically depreciated relative to gold and was more likely to do so in the future, especially if other metropolitan countries, following Britain's example, also demonetized it. They argued that silver was inherently inferior to gold as a standard of value, means of payment and store of value. Yet all these disadvantages applied equally to the colonies, which were forced by Britain into absorbing silver as currency and reserves.

Contrary to official claims, gold coins, both foreign and British, did originally circulate in colonies as far apart as West Indies, India, the Straits, West and East Africa. They were also clearly preferred to silver currency, by both foreign and local interests in the colonies, as universally accepted means of payment and excellent stores of value. These gold circulations were all eliminated by British policy.

It will be shown from the Reports of the British Gold and Silver Commission, and also the views of experts such as Jevons[9] (who also advised other metropolitan countries[10]), that an international bimetallic agreement was desirable and feasible. There was consensus that the fundamental objective of a stable and just international monetary standard was better satisfied by bimetallism rather than the narrower and appreciating gold standard which many thought favored creditors at debtors' expense, both at the level of nations, and individuals. Imperial expert Hawtrey (1927:83) had himself concluded that the defects of gold and silver as standards of value in the nineteenth century 'have been attributable to causes within human control'.

The international monetary conferences revealed that Britain and the other metropolitan countries were all opposed to having a united monetary standard with their colonies, and it was primarily Britain's position which led to the metropolitan rejection of bimetallism at the international monetary conferences of the late nineteenth century, the metropolitan adoption of the gold standard and rejection of silver, and the subsequent long term depreciation in the gold values of silver. It was clear also that all other metropolitan countries recognized the disadvantages of absorbing silver while Britain remained on a gold standard.

The metropolitan countries all recognized that whatever monetary solution was adopted for themselves, the colonies would not be allowed to have either gold or bimetallic standards, but must continue to absorb silver.

Even as late as the 1930s, Britain, while fully realizing the impossibility of the international remonetization of silver, continued to dump much of the world's production of depreciating silver into India, China and other colonies. Imperial concerns again were markets for British exports and the disadvantages for Britain of holding silver. Britain ensured that India did not sell her surplus silver on a large scale, but continued to absorb silver as currency or into private hoards, in order to help stabilize the price of silver and to reduce Indian demands for gold from the London money market.[11]

The British authorities were very much aware of the continued losses faced by Indians, whose savings were in the form of silver ornaments or bullion, and whose rupee value kept falling.[12] Even with surplus silver stocks in the hands of the Indian Government, Britain seemed to be implementing deals which meant that India absorbed more silver in the late 1930s, while giving up gold to Britain.[13] During World War II, Britain seriously considered the production and sale of silver (and to a limited extent, gold) trinkets in colonies at prices which would be many times their intrinsic values, with the objectives of fostering supplies of raw materials while absorbing with a massive profit, the resulting purchasing power in the hands of colonial natives.[14]

De Cecco's view (1974:44) was that the silver-absorbing countries 'became the objects of international arbitrage to deprive them of gold' and followed Keynes' interpretation in seeing the debate on bimetallism and silver as a struggle between debtors and creditors, industrial entrepreneurs and importers of manufactured goods struggling against producers and exporters of primary commodities. De Cecco concluded (1974:58) that in all the metropolitan countries, 'industry prevail[ed] over agriculture, creditors over debtors ... faithfully mirrored by events in the various monetary systems'.[15]

This 'silver imperialism' continued well into the twentieth century and deserves further research as to the precise City interests who gained from this silver export to the colonies, and their relation to imperial decision-making. Certainly, it would be easy to interpret it as a mechanism of imperialism, as defined by Griffin and Gurley, whereby Britain (and other metropolitan countries) directly and explicitly gained at the expense of the colonies and neo-colonies. This also indirectly undermines Schumpeter, who argued that under free trade there could not be any conflicts of interest between nations or classes.[16]

Generalized Misconception 2. During the nineteenth century, Britain tried to implement a uniform sterling currency (based on the British gold sovereigns) throughout the British Empire, but failed because of colonial preferences for silver currencies, including British silver.

While British sterling would have ideally satisfied all the ideal monetary functions in the colonies and this was universally recognized and desired in colonies, it was banned outright or eliminated indirectly by unfavorable currency valuations.

When British silver or British dollars were being imposed on colonies, the authorities gave guarantees that the British coins (whether dollars or shillings) were really sterling by another name and would be fully convertible into sterling in London. Nevertheless, there was an imperial assumption that these silver coins would never return to Britain to be redeemed for gold or sterling proper, and to discourage that possibility, the British silver coins were made into 'tokens' with a significant seigniorage taken out so that the bullion value was always less than the face value. There was even an expectation that should natives melt these silver coins into bullion, this would be a non-reversible process, to Britain's advantage.

In contrast to Britain's adherence to Lord Liverpool's dictum that to ensure international acceptability, no seigniorage should interfere with the sovereign's function as a standard and measure of value, in colonies the imperial authorities deliberately weakened colonial currencies as standards of value by taking out a significant seigniorage, and circulating tokens only. This policy, as with Indian rupees and British dollars and shillings, ensured that they were discouraged as regional and international means of payment based on intrinsic silver content.

The imperial authorities demonetized competing currencies, while also demonetizing the silver bullion savings of inhabitants by closing the mints to the public. All colonial currencies were separated from objective standards, with their values being maintained through artificial scarcity.

When imperial authorities recognized that there was a possibility that regionally acceptable British silver might be returned physically to Britain, they established the Emmott Committee of Inquiry for West Africa to introduce completely new localized silver coins, for which Britain could deny any liability and eliminate any possibility of a return to Britain.

Generalized Misconception 3. Britain's fostering of other currencies, such as British silver rupees or dollars, was the result of the authorities' respect for the principle of 'currency areas' and wish not to impose sterling where it was not desired.

The imperial authorities persisted with foreign coins such as Spanish dollars in West Indies or even British rupee coins as in East Africa, not because of their respect for currency areas, but because of strong colonial preference for these coins as essential for their regional trade, and the failure of imperial valuations intended to drive them out of circulation. Eventually, when the authorities were able to, they dispensed with the universally acceptable Spanish dollars, replacing them with British colonial dollars and British rupees, in turn replaced by East African rupees. There was no imperial respect for currency areas, with Britain far more interested in fostering colonial trade with Britain, rather than with neighboring areas.

The imposition of currency boards

Generalized Misconception 4. By the beginning of the twentieth century, Britain could not allow colonies to continue using British silver because there was a danger

that colonies might 'over-issue' currency; there was a consequent danger of British tokens flooding back into Britain, where there was no institution with the legal liability for their redemption, therefore posing the danger of depreciation of British currency and inflation in Britain.

These arguments are completely off the mark: the British Mint had total control over the issues of British silver tokens; British authorities had originally encouraged the colonial absorption of British silver by giving full guarantees of redemption into gold and sterling proper; and there was no likelihood of depreciation of British currency and inflation.

The real imperial fear was that British silver, circulating throughout the world, posed a potential demand on London's gold reserves especially when the depreciated value of the inherent bullion meant a capital loss on any holder, including the British Mint. Imperial officials and British commercial interests in colonies pointed out the hypocrisy of the imperial position, in that having obtained gold or sterling values for the British silver tokens, their refusal to redeem them was a fraud on the holders in the colonies. This fraud continued decades into the twentieth century. British silver in the colonies was ultimately melted down and converted into purely colonial coins, all at colonial expense.

Generalized Misconception 5. The West African Currency Board system, the prototype for others, was the result of the findings of the 1912 Emmott Committee of Inquiry into the currency needs of British West African colonies. The currency systems of the Straits and India were also based on the findings of their respective committees of inquiry.

The historical reality was that the 'committees of inquiry' invariably ignored the views of witnesses, including the colonial economic interests (both British and local) as well as the views of the colonial officials. Some witnesses were 'primed' to give appropriate answers. The committees' 'findings' and recommendations were generally pre-determined, totally as required by Treasury and Bank of England interests, although there were some committee members who had opposing views.

Generalized Misconception 6. While the currency board was to be a full gold standard or gold exchange system, its 'standard' coins had to be of silver because of the suitability of, and historical colonial preference for the lower value metal in the poorer, low per capita economies of British colonial Africa, Asia and the Caribbean.

There was no colonial preference for silver currency. The issue of suitable low value coins could just as well have been satisfied with copper coins. A second best preference was for British silver tokens, which were being accepted across the border; but even that was refused by imperial authorities, for fear of their return to Britain.

Generalized Misconception 7. The currency board system could not have a predominantly paper currency system similar to Britain's, because the colonial peoples were not sophisticated enough to use a paper currency, their transactions needs were not large enough, and there was no significant colonial demand for paper currency.

All the statements here are inaccurate. There was considerable demand for colonial paper currency, which was quite acceptable nationally. Indeed, colonial preference was for paper currency backed by gold reserves in the colonies, not the silver reserves that Britain imposed on them.

The imperial authorities clearly accepted the note issues of private commercial banks (usually owned by metropolitan interests), with extremely lenient reserve requirements, while opposing colonial government paper currency issues, which were ultimately backed by colonial government revenues, hence safe from bankruptcy.

In India, the imperial authorities deliberately limited the success of paper currency through measures such as defining limited circles of issue, ensuring that the Indian notes were not backed by gold reserves in India, and limiting government deposits with them while holding excessive government cash in London, thereby limiting private note issue in colonies.

Behind the discouragement of paper currency was the fear that notes would totally replace silver, which would no longer be required in the colonies, and the colonies might want to insist on gold reserves in colonies. Both would have been against the interests of the City, which profited as suppliers of silver, and was also always in need of gold reserves in London to support their export of capital.

Generalized Misconception 8. A major imperial objective in creating the currency board system was to ensure that the seigniorage profits of currency issue, which were expected to be significant, became available for colonial expenditure.

The seigniorage profit was merely a carrot as an incentive to colonies to change over from existing sterling silver to new localized colonial silver coins. Colonies were not expected to enjoy any significant value from the seigniorage, and for many, the profits were even lower as British silver and other foreign silver coins had to be melted down and reminted into new colonial silver coins, all at colonial expense.

Far from being available for colonial expenditure, seigniorage from the colonial currency issue was to be maintained as gold and sterling securities in London, in order to guarantee convertibility for those who wanted sterling in London. The authorities explicitly expected little to be available for colonial expenditure.

The authorities even saw the success or failure of the proposed currency boards to depend on enough of the new colonial silver coins being melted down by the colonial natives (especially in Africa and Asia), thus forever reducing the gold liability to their bullion content. A massive amount of rupees in

India were known to have been converted into ornaments which, from 1893, could not be directly minted by their holders into new rupee coins.

Generalized Misconception 9 Another major objective in creating the currency board system was to ensure complete confidence in and convertibility of the colonial currency, which had to be backed by at least 110% of gold and sterling reserves – to be held in London, not the colonies.

This was completely a non-argument, given that the colonial currencies originally being replaced were British sovereigns or silver tokens, which had already enjoyed colonial confidence. Even the British silver tokens had been originally given imperial guarantees of convertibility into sterling.

The need to hold 110% of the face value of the notes and coins in colonies, was also totally unnecessary, as authorities had from the earliest times, acknowledged the principle of the 'hard core circulation' just as with the Bank of England fiduciary issue: that a certain minimum amount of currency and deposits would always be necessary for the normal functioning of the economy, would never be presented for redemption, and could quite comfortably be covered by colonial government securities.

The authorities consistently refused to allow backing gold reserves to be held in colonies, because of the fear that they would be demanded for export to neighboring non-British territories, and therefore not be available to the London money market.

Generalized Misconception 10. The 10% (sometimes 20%) margin over 100%, in addition to a Depreciation Fund (worth 10% of the Note Guarantee Fund), was necessary to safeguard the convertibility of colonial currencies, by allowing for capital losses (realized or unrealized) on the sterling securities held in the currency reserves.

All the evidence suggests that this 10% Depreciation Fund was considered by all colonial authorities and interests, and Colonial Office officials to be totally unnecessary, given that the 110% cover was itself excessive.

The Crown Agents had complained that the depreciation in the sterling securities held as part of the currency cover, was due entirely to imperial authorities' insistence on the funds holding short term British Government securities which were usually depreciated because the London money market disliked holding them.

Currency board reserves policies

Generalized Misconception 11. Responsibility for the management of colonial currency reserves lay through the colonial Currency Commissioners, the colonial governments, the Crown Agents and Currency Boards – and ultimately the Secretary of State for the Colonies. There was no overriding influence on the Crown Agents by any other imperial authority.

While these were the official legal lines of authority, the reality was that from the formation of the currency boards, the Secretary of State for Colonies listened to the Treasury, which usually went along with the wishes of the private Bank of England. The Crown Agents were often explicitly over-ridden when their advice went against that of the Treasury, the Bank of England and against British interests.

The colonial governments' instructions to the Crown Agents were also disregarded when the Bank of England dictated otherwise, and colonies were often deliberately deceived or kept in the dark when sensitive imperial decisions were being made in Britain's interest and explicitly against colonial welfare.

Influential Colonial Office decision-makers usually sided with the Treasury and Bank of England in the full knowledge that colonial interests were being sacrificed in the interests of Her Majesty's Government and the City, and some may owe their imperial honors to this service.

Critical academic studies were rejected and publicly argued against, some academics labelled as 'unpatriotic', despite the fact that the authorities had already internally acknowledged the validity of the criticisms. In the imperial interest, the colonial authorities in London went to the extent of anonymously and openly rebutting the academic criticisms, while fostering and manipulating alternative studies.

Generalized Misconception 12. Britain insisted that colonial currency reserves hold minimum proportions of gold coin held in London, because the authorities wished to create gold standards or gold exchange standards in her colonies.

The reality is that imperial authorities maintained non-interest earning gold reserves held with the Bank of England or invested specifically in British Government securities primarily to support sterling. The authorities opposed gold reserves and convertibility in the colonies for fear that the gold would leak out into neighboring territories.

The currency board system was created with the primary objective of *preventing* free and ready convertibility for *all* holders of colonial currency *within* the colonies and the non-British surrounds. While British holders of colonial currency were guaranteed ready convertibility in London, such convertibility had little value for most local holders of the colonial currency, who were moreover discouraged by double conversion charges, as was recognized by the London authorities. The currency board money was intended to *not* have all the advantages that the pound and sovereign had as world money and universal equivalent. They were intended not to be ideal standards of value, generalized medium of exchange, regional means of payment, or efficient stores of value. Colonial currencies were not *'sterling by other names'*, as even Colonial Office officials recognized internally in the 1950s.

Where paper currency was being issued, either by colonial governments of private banks, the imperial authorities ensured that the fiduciary portion was backed by British Government securities, or at worst, securities of private metropolitan banking interests, not colonial government securities or those of the dominions.

Eventually, when sterling went into decline, far from colonial currencies being regarded as completely convertible, colonies were paradoxically regarded as foreign countries whose currency reserves were a potential drain on Britain's balance of payments, even though they were net earners of dollar and gold surpluses used by Britain.

Generalized Misconception 13. Reserves were invested in securities in London, in order to maximize the income from, and most rapidly accumulate the colonial currency reserves, with complete safety.

The evidence is that, even when the system was being created there was no expectation of significant income. During long periods of time, especially after the 1930s, income was minimized in order to ease Britain's balance of payments. There was also no great safety in investing in London, especially when the securities depreciated heavily, when City holders discarded them for safer alternatives.

The evidence indicates that senior Colonial Office functionaries acknowledged that the colonial currency reserves policies being implemented were not in the best interests of the colonies but that of Britain. While colonies were forced to acquire and hold short-term British securities, the white settler dominions were diversifying from London sterling securities to NY dollar securities, once the decline of sterling became evident.

It is clear that imperial manipulations of colonial currency reserves occurred in periods when sterling was going through crises of convertibility, when private holders of sterling, while investing abroad, eschewed the securities which colonial currency funds were required to hold. Thus colonial sterling funds also helped finance British investment abroad.

In the same periods, colonies were themselves restrained from taking loans in the London money market, while the private investors abroad and the white settler dominions were given priority.

The colonies were therefore forced to maximize not only currency reserves in London, but also government cash balances, savings bank funds, commodity stabilization funds, and all others balances over which the imperial government had ultimate authority.

The colonies were therefore forcibly paid a low return on their own funds in London, while a higher rate was paid by them on whatever little they were given permission to borrow.

Generalized Misconception 14. Most of the securities held were those of the British Government on the grounds of liquidity and income, and not part of any deliberate

imperial policy of using colonial funds to finance British Government expenditure. Conversely, there was no deliberate policy of not holding colonial, dominion or other securities.

The evidence is that the Currency Boards and the Crown Agents were pressured into discarding higher yielding sterling securities of the dominions and the colonial government themselves, in order to purchase lower-yielding British Government securities. Then, the Crown Agents and Currency Boards were pressured to move from longs to short term securities, Treasury Bills and even cash, in order to totally minimize the drain on sterling reserves.

Despite the successful experience of some colonies in holding their own colonial government securities, these were gradually reduced and, ultimately, the authorities refused to approve the currency boards or Crown Agents holding colonial government securities of their own or even those of other colonies, as part of their sterling reserves.

The authorities created informal 'rules' whose creation, operation and official demise was deliberately kept hidden from the colonies. The authorities also used indirect agreements in the London money market as well as secret informal 'personal' communication with colonial officials in order to achieve their objectives.

Some colonial administrators readily acquiesced to imperial wishes, explicitly serving Her Majesty's Government rather than that of the colonies under their responsibility.

Generalized Misconception 15. While the original intention of authorities had been to create a 'managed' system like the gold standard or the gold exchange standard, what naturally evolved by experience, practice and according to colonial needs, was a sterling exchange standard, with the diverse sounding colonial currencies really being pounds sterling by other names.

There was never any intention of creating a true gold standard, or a true gold exchange standard. While it was from the beginning a sterling exchange standard, that was neither due to experience or colonial need; indeed, the latter would have preferred full sterling circulating in the colonies. The authorities opposed this more sensible option, as the sterling paper currency (like the sterling silver tokens) would have leaked out into neighboring foreign territories and eventually called on London gold reserves.

The frequent claims that colonial currency was really sterling by another name, were patently wrong.[17] The colonial currencies were consciously designed to be different from sterling.

Currency boards and colonial development and underdevelopment

Generalized Misconception 16. The introduction of British colonial currencies was a modernizing process substituting superior currencies for inferior currencies,

which were not as efficient in fulfilling the ideal functions of money,[18] *nor did they have the desirable qualities possessed by modern money.*[19]

The historical evidence indicates that contrary to Letiche (1974) and Fieldhouse (1981) all the colonial currency changes were regressive by all the standards of an ideal money: as a suitable standard of value, medium of exchange, means of payment, and store of value. While there was no deliberate attempt to cause underdevelopment in the colonies, rather the imperial policy objective was to protect sterling, the capacity to invest internationally, the desire to protect British government interests despite the acknowledged disadvantages for colonies including colonial underdevelopment.

Generalized Misconception 17. The discretionary powers over the issue of currency could not be left safely in the hands of colonial governments; while there was no need to create colonial central banks which could foster monetary development, the British authorities did not discourage such institutions.

There was no evidence that colonial governments, totally under the control of the Secretary of State for Colonies, were ever irresponsible. Yet all the evidence indicates vehement opposition to colonial central banks, even in large developed economies and the monetary markets such as in India. The Bank of England was usually the hidden hand behind such opposition.

Generalized Misconception 18. The currency boards were not in any way intrinsically contributing factors to colonial underdevelopment. This is discussed at length in the concluding chapters.

Generalized Misconception 19. British authorities were not behaving in any exploitative 'imperialist' fashion with colonial currencies, but devising the most appropriate currency and monetary system for the colonial economies and people.

This is discussed in the concluding chapters.

Outline of chapters

Chapter 2 outlines the two centuries of evolution of Britain's own currency between 1698 and 1893, its formal adoption of the gold standard in 1816, and rejection of bimetallism and silver for itself, despite European consensus on the need to maintain the bimetallic system.

Chapter 3 presents Britain's imperial attempts at the replacement of the circulation of all gold and foreign currencies in colonies by silver, its initial attempt to circulate British silver tokens and British silver dollars, and the eventual decision to eliminate all British coins from the colonies. While this study focuses largely on colonies where major changes in colonial currency policy were taking place and of greater interest to Britain-namely West Indies, the Straits Settlements, India, and West and East Africa, there are references to other colonies where similar policy changes

were also occurring. Inevitably, the attempt to picture the whole 'forest' of British colonial currency policies must leave out important 'trees', some of which may be genuine anomalies requiring historically specific explanation. However, the analysis of the entire forest is necessary to correct the misconceptions that still permeate many studies of colonial currency systems studied in isolation.[20] Chapter 3 also describes the major reserves crises in London during the period 1890 and 1914, and the explicit recognition by Britain of the usefulness of the colonial reserves they were creating in London.

Chapter 4 details the major currency changes that had to be enforced in India, the colonial territory vital to the sterling system, to ensure the minimization of demands for gold in London, and the strengthening of gold reserves in London. While some of the material for this chapter falls more logically within Chapter 3 (and vice versa), the territorial separation for chapters is used for narrating convenience.

Similar policies are then traced in the Straits Settlements (Chapter 5), which links to the establishment of the currency board system in West Africa (Chapter 6), which most colonial historians have seen as a model for all colonies thereafter. The actual evidence by witnesses to the West Africa Barbour and West Africa Emmott Committees are shown to be opposite to the conclusions and recommendations of the final Report, which are shown to be fundamentally pre-determined imperial decisions serving imperial priorities, rather than the local colonial views and priorities.

Chapter 7, covering a period four decades later, traces a series of internal conflicts between colonies and Colonial Office, and internal conflicts involving the Crown Agents, British Treasury and Bank of England, over the management policies for the colonial currency and cash reserves held in London. These events are shown to totally undermine the alleged logic in creating the currency boards decades earlier. The historical record points to the protection of sterling as being the central objective of imperial decision-makers at all times, both in its rise and decline.

Central to this protection was the use of colonial currency board policies to maximize colonial sterling balances invested in London (while minimizing their earnings), and the maximization of the holdings of short-term British Government securities, all under the effective control of the British Treasury and Bank of England. Chapter 7 also outlines the imperial response to academic criticisms of the currency board system, including anonymous publications by imperial civil servants, and the fostering of supposedly independent academic studies to counter the academic criticisms, assisted by political pressure on academic institutions.

Chapter 8 is a reassessment of the previous academic debates on the economics of the currency boards, given the historical experience outlined in this book. While somewhat detailed, the discussions and debates may be useful for those wishing to examine similar implications with regard to the

US dollar or other currencies such as the renminbi and euro, as a reserve currency for other countries. There is then a brief section discussing the 1990s advocacy of modern currency boards, argued by some to be a superior alternative to central banks.

Chapter 9 outlines the currency and monetary experiences of the white settler colonies (referred to as 'dominions'), as a contrast and superior alternative to those of the colonies proper. With dominions being allowed great flexibility by imperial authorities explicitly because they were seen as white settler colonies, there is introduced the sociological factor of racism in this history of colonial currency. This chapter draws heavily on a recent publication (Accominotti et al 2009) which brings together many themes in the earlier chapters of this book.

Chapter 10 then discusses the relevance of this book for theories of imperialism and colonial underdevelopment.

There is a section in the concluding chapter recommending a number of new research areas suggested by this book, apart from the old standard monetary questions: important colonies not fully investigated in this book; monetary imperialism in important areas of British informal control such as Egypt and the Middle East; the role of London non-government institutions influential in colonial policy (such as the Bank of England, Crown Agents, other banks and bill brokers); institutional records not investigated in this study, especially those of the Crown Agents, British Treasury, and Bank of England;[21] the role of local colonial collaborating interests; the role of academia in facilitating imperialism; imperial manipulation of official inquiries as a mechanism of formulating imperial policies; imperial policies on banking throughout the colonial empire and the dominions; monetary imperialisms by other super powers; lessons for future world currencies; Marxist theories of money; and need for greater integration of econometrics with political economy.