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REGD
REC 30 MAR 20

E. AFRICA

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WYER, G.

1920

20th MARCH

Last previous Paper.

~~[illegible]~~
6498

Subsequent Paper.

CURRENCY

Memo. in support of restoration to its former basis.

Mr Bottomley

[illegible] for minutes herewith

I have attached the memo. prepared [illegible] it was expected that this would come up at the [illegible].

See Col. [illegible]

[illegible]

I put with this a letter from Mr [illegible] referring to the memo [illegible] "live as [illegible]" [illegible] the settlers could [illegible] agree) [illegible]

[illegible]

S. 6. 4

[illegible] reply to Capt. Grogan [illegible]

[illegible]

[illegible]

[illegible] settlers and currency

[illegible]

[illegible] Governor has decided that

the [illegible] should be

devalued and that

the [illegible] exchanges [illegible]

[illegible] should

[illegible]

[illegible]

[illegible]

It is quite certain that the framers of the 1905 Currency Order in Council had no intention of setting up any currency standard. The Indian coinage was retained, and the introduction (after some hesitation) of the sovereign was a matter of mere convenience like the cental subsidiary coinage and the paper currency which were introduced at the same time.

That maintained the rupee in East Africa at a value higher than its bullion value was not to have the provision of the East African Order in Council that the sovereign should be legal tender for Rs.15, but the fact that the coin was worth more than its bullion value in India. The position of the rupee in India was of course due to its connection with the sovereign, but it is certain that for East Africa it was simply the Indian currency which was adopted.

Further, the Indian rupee was definitely laid down to be the legal standard for Contracts, etc. It is impossible, in view of that provision of the Order in Council, for anyone to maintain that when he made his bargain in rupees he was legally entitled to [illegible] ~~thinking~~ in terms of the sovereign (at the rate of Rs.15) and therefore should be required to repay at that rate.

The Indian rupee has been very much on the same footing as the pound sterling. Both were unlimited legal tender tokens and standards of account formally convertible into gold at a fixed rate. ~~depending for their value on the gold sovereign~~ and in each case it has been impossible to maintain the old equivalence. The only difference is in the direction in which the alteration has taken place. Sterling has depreciated in terms of gold while the

rupee

rupee appreciated not only in terms of sterling but also in terms of gold. It was for this reason that the India Office considered it desirable to reduce the parity of the rupee from 15 to 10 rupees to the sovereign.

Even if it be admitted that before the appreciation of the rupee E.A. was on a gold basis, it is not reasonable to argue from that that it was on a basis of Rs. 15 to the pound sterling. The decision that the rupee in E.A. should ultimately be put on a basis of 2/- sterling was actually taken when that value was very little different from 1/15th of the gold sovereign.

The argument that the European producer, in E.A. is alone in suffering from an appreciation of a circulating medium is unsound. The main plantation industries - sisal and coffee - depend for the price of their production the prices of similar produce from Mexico and Brazil, but in each case the sterling value of the circulating medium has appreciated.

(The rate of exchange of the milreis fluctuates considerably even in normal times, but I find that the Rio exchange at the end of August was 14. 10/32d as against 16. 27/32d today. This is an increase of 17%.

There appears to be no quotation for the Mexican exchange, which I understand depends entirely on the silver value of the Mexican coin. There has therefore been a great appreciation during the war, and during the period from 1st September when the price of silver was 58d, the appreciation is something like 25%)

Further, it is fallacious to represent the interests of the European settlers as being the only consideration requiring attention. The main producer for export in East Africa and Uganda is the native. In the last year before the war, [illegible] of the total exports, valued at £1,482,876, native products cotton, sim sim, ground nuts, hides, goat skins, etc.) amounted to no less than £1,090,000. Since then European cultivation, especially of sisal, has increased greatly, but on the other hand the value of the export of cotton has greatly increased, and the native still produces the main share of the exports. In addition, these native industries are the chief drain on the circulating currency of the country. The present Uganda cotton crop & exportable etc represents a value to the native grower of about twelve million rupees, and it was of the greatest importance to avoid any risk of the disappearance of currency before the new token currency could be introduced. Even with the value of 2/- there have been indications of [illegible]endency ~~of~~ for the Indian rupee to go underground.

It has been suggested that by depreciating the value of the rupee to 1/4 sterling the purchasing power of the coin would not be affected. But no adequate grounds for this belief have been brought forward. Our latest information shows that even with the rupee at 2/- prices of local services and products are rising in terms of the rupee, while the prices of imported goods from Great Britain have increased even more than in proportion to the change of the value of the rupee. The price of goods imported from India, as was expected, has risen in the same proportion as the relative value of the rupee in India and East Africa. It may be taken as certain that the reduction to 1/4 would have meant that the purchasing capacity

capacity not only of the native cultivator but also of the native labourer on European plantations would have been greatly reduced. In fact, it is probable that the apparent advantage to the European settler through his getting Rs. 15 for his pound sterling in paying wages would have been merely neutralised by the necessary increase of wages.

As regards the European who has contracted debts, it has been pointed out already that, though he may have regarded these debts in terms of the pound sterling (at Rs. 15), he had no legal grounds for doing so. His creditor, who must receive some consideration, regarded them as rupees and in many cases he is himself bound to make good the amount by a rupee payment in India. From this point of view the value of the new florin, as the local equivalent of the rupee, is a compromise between the interests of the creditor and the debtor. It prevents too great a burden being laid upon the native of India resident in East Africa, whose purchases of food etc. are made almost entirely from India and on the importer of Indian commodities who has to buy at prices measured in Indian rupees and pay from money received from sales on the East African basis.

The change of currency and exchange which has [illegible] decided upon has been the subject of strong protest from Indian residents in the Protectorate, but it is certain that these protests would have been irresistible if the change to 1/4 had been decided on.

As regards the new settlers and the Soldier Settlement Scheme, it may be pointed out that at the time when they chose their farms - 1st September 1919 - the Indian rupee was at 1/10 sterling. The gold value of the Indian rupee was ~~1/10~~ ie 1/7, the gold value of the East African florin ~~at present rated~~ now after the recent rise of sterling is [illegible] only ~~would be~~ 1/7 ~~only~~.

B
76502
E. Af.

COLONIAL OFFICE,
DOWNING STREET, S.W.1.
[illegible] April 1930.

Dear Captain Bowyer

Thank you for the copy of the memorandum on currency in East Africa which you [illegible] Major. I kept it by me while there was a prospect of the question being raised in the House before the recess, and since then the holidays have helped to delay my reply.

I do not think it necessary to deal exhaustively with the suggestion that, by making the gold sovereign legal tender for 15 rupees in 1906, the Government of the East Africa Protectorate (or the Foreign Office and Treasury on their behalf) contemplated putting the country on a gold basis or with the further assumption that what was really intended was to put the country on a sterling basis, and that the East African Government was consequently under an obligation to keep the rupee at one-fifteenth of the pound sterling, quite irrespective of the relation of the latter to the gold sovereign.

As a matter of fact the framers of the 1906 Order in Council were mainly concerned with the provision of convenient currency media for higher and lower amounts than the rupee, and the main device by which they met the former need was the introduction of local currency notes. The use of the sovereign was discussed, rather [illegible], and inserted [illegible] in the [illegible] as it was thought that the growing South African interests would want it subsequently. It is quite true of course that in India the value of the rupee in pre-war days was maintained by its fixed equivalence with the sovereign. But so far as East Africa was concerned there was no idea, when the sovereign was made legal tender, of using it to fix the value of the rupee. There certainly was no idea of departing from the rupee as the statutory basis of the East African currency system. The Order in

Council

of 1906 definitely provided that the rupee was to be the legal standard for contracts, and the man who made a rupee contract has no legal ground of complaint, at any rate, if he is asked to fulfil it, any more than the man who made a sterling contract in this country is entitled to complain if he is paid in sterling and not in gold sovereigns.

The position of the rupee in East Africa, under the Order in Council of 1906, corresponded, in fact, closely with that of the pound sterling in this country. Both were unlimited legal tender tokens and the measure of contract and account. Both were normally convertible into gold at a definite ratio. In each case convertibility was suspended by circumstances arising out of the war. While sterling, however, depreciated heavily in terms of gold, the rupee, owing to the increase in the value of silver, appreciated in terms not only of sterling but also of gold.

It is impossible to ignore the depreciation of sterling in its bearing on this question. To suggest, as is done in the memorandum, that because the gold sovereign was made legal tender in East Africa, the rupee was thereby fixed in terms of sterling and that a man who made a rupee contract is entitled to complain if he cannot fulfil it in depreciated sterling, is surely stretching the argument beyond what the circumstances warrant. Nor is it reasonable to insist that the Government should, somehow or other, be able to do in East Africa what it certainly cannot do in this country, or anywhere else, namely make the pound sterling go as far as it did before the war.

It is true that in this country the depreciation of sterling has benefited the debtor, while in East Africa the debtor has lost, and the creditor has gained, by the appreciation of the rupee, though only in so far as the former has to pay out of sterling resources, or the latter remits his receipts to the United Kingdom. The memorandum assumes throughout that the debtor's interest is the only one to be considered. But it is not really possible entirely to dissociate the two interests. The man who is creditor in one aspect is generally also a debtor in another, and nothing could be more injurious to development than Government action which directly undermined the whole basis of credit. In the particular case of East Africa most of the creditors are themselves, directly or indirectly, debtors to India for the rupees which they have advanced. To have compelled them to accept 1/4d sterling in respect of transactions which they have had to liquidate at 2/4d, or at an even higher rate, would not only have been obviously unfair, but would have led to financial chaos.

I have insisted briefly on these points in order to correct certain erroneous assumptions on which the memorandum is largely based. At the same time I wish to make it quite clear that the Colonial Office has been keenly alive to the need of giving all possible assistance to the European settlers in East Africa, both old and new, in so far as they have been adversely affected by the appreciation of the rupee, and to the desirability of securing permanent stability between the East African currency and British sterling. We originally hoped that it might be possible to fix at the old rate of 1/4d. [illegible], and, in fact, at one stage, when the rupee had not [illegible] beyond 1/8d, [illegible] the British currency was legal tender in East Africa at 15 rupees, as stated in the memorandum. There were practical objections [illegible] to this [illegible] the same result was aimed at, and could have been secured, by the setting up of an Exchange Board and the issue of a token currency, if the sudden further appreciation [illegible] towards the end of last year and the subsequent [illegible] depreciation of sterling in terms of gold, culminating in the decision of the Indian Government to fix the rupee at one-tenth of the gold sovereign, i.e. about [illegible] sterling at the then rate of [illegible] exchange, had not absolutely precluded the possibility of carrying out such a policy.

For one thing it had become evident even before this last decision that to force back the rupee to 1/4d sterling, which might have been feasible when the rupee was at 1/8d would, with the rupee at 2/4d, have not only [illegible] prices in local prices, but would also have meant that banks and other creditors would, in order to protect themselves, have been compelled to call in all advances, with ruinous consequences to the very settlers whom it was intended to help.

For another it was essential to keep in mind that this was not only an exchange but a currency problem. The actual currency consisted of Indian rupees, for which the natives were unwilling to take paper notes as a sufficient substitute, and the manufacture of token coinage of lower intrinsic value was a matter of many months. The native, who is after all the main producer of the country, is also the chief drain upon the currency: the Uganda cotton crop alone is expected to represent a value to the native grower of about twelve million rupees. It was of the greatest importance to avoid any risk of the disappearance of the existing currency by melting down or smuggling out of the country before the new token currency could be introduced. Even with the value fixed at 2/- there has been a [illegible] tendency for the rupee to disappear, and no small difficulty has been experienced in finding enough currency to purchase the Uganda cotton crop. At 1/4d there would have been no coin left at all; the cotton crop would have been left unsold, and a grave set back given to

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one of the most [illegible] features in the development of all [illegible] and to the [illegible] of British trade which that development implies.

Again the Colonial Office [illegible] not referred to in the memorandum, [illegible] body which is responsible for a large proportion of the whole-sale business of the country and for practically the whole of the small retail trade, is not only financed from India and obliged to discharge its obligations in rupees, but lives largely on Indian produce whose cost in [illegible] would naturally be increased in the proportion in which the East African exchange was brought down as compared with the Indian exchange. [illegible] the change actually decided on has been the subject of very strong protest from the Indian [illegible] in East Africa. To have compelled them to convert/[illegible] in the cost of transactions [illegible] and ultimately to [illegible] India at 2/4 or over, and practically to double the cost of the rice and other commodities which are imported from India, would have involved a wholly unjustifiable [illegible] them.

It is [illegible] to keep in mind that the Colonial Office [illegible] not only [illegible] [illegible] It [illegible] in India [illegible] And even if a 2/- [illegible] in British East Africa [illegible] the interests of [illegible] territories, it should not have been forced upon [illegible] the Colonial Office.

one of the most [illegible] features in the development of all East Africa, and to the [illegible] of British trade which that development implies.

Again the Colonial Office [illegible] not referred to in the Memorandum, of the Indian [illegible] body which is responsible for a large proportion of the whole-sale business of the country and for practically the whole of the small retail trade, is not only financed from India and obliged to discharge its obligations in rupees, but lives largely on Indian produce whose cost in East Africa would naturally be increased in the proportion in which the East African exchange was brought down as compared with the Indian exchange. [illegible] the change actually decided on has been the subject of very strong protest from the Indian [illegible] in East Africa. To have compelled them to receive 1/4d in respect of transactions which they had ultimately to liquidate in India at 2/4 or over, and practically to double the cost of the rice and other commodities which they imported from India would have involved a wholly unjustifiable measure of [illegible] upon them.

It is necessary further to keep in mind that the Colonial Office [illegible] this question [illegible] regard not only to [illegible] in the British [illegible] but to the interests of the African [illegible]. It [illegible] [illegible] in [illegible] [illegible] India [illegible] And even if a 1/4d [illegible] in British East Africa it would have been entirely against the interests of [illegible] two mainland territories, and should not have been forced upon them by the Colonial Office.

on his return to the Protectorate consider the possibility of allowing a postponement of the payments due by the settlers to the Government. As the payment for the [illegible] [illegible] spread over a long period of years the relief will [illegible] settlers during each year of their operations. Ordinary working expenses must in any case increase in terms of sterling, but it must be remembered that the prices obtained for exported products are themselves largely swollen by the depreciation of sterling, while what the settlers sell for local consumption will be paid for in local currency and will not be affected by the value of that currency in terms of sterling.

I might note in passing that the memorandum seems to imply that it is the East African producer alone who is hit by the appreciation of the circulating medium. But the main East African plantation industries - coffee and sisal - are both industries in which the competitors, who, by virtue of the large scale of their production, dominate the market and fix the price are, in each case, countries with a depreciated currency, viz. Brazil and Mexico.

That Missionary funds raised here will not go as far in East Africa to-day as if the rupee had not been stabilised or the pound sterling had not depreciated, is true. But I am afraid Missionary Societies [illegible] in [illegible] all the world over as, indeed, are [illegible] Societies which work at home. The Societies, like the settlers, have, at any rate, reason to be thankful that as regards East Africa the Colonial Office, in spite of all the difficulties involved, have cut loose from the Indian rupee and have established a new currency system on a permanent sterling basis.

To sum up, I venture to suggest that while no measures which could have been taken could possibly have saved the

European settlers in East Africa from all the consequences of the depreciation of sterling, itself an inevitable consequence of the war, or from all the consequences of the appreciation of the Indian rupee, the measures actually taken have afforded the greatest amount of relief possible without a general dislocation of all business, have secured a permanently stable exchange for East Africa in terms of sterling, and have been devised in the best interests of every section of the East African community.

I propose, if you have no objection, to publish this correspondence.

Yours Sincerely

(Sgd) L. S. Amery

CAPTAIN G.E.W. BOWYER, M.C., M.P.

BREDE PLACE,
SUSSEX.

April 2.

Dear Major Thornton

I think you may like to have the enclosed copy of a short letter I have written to some good fellows, agitated about their E. A. P. exchange.

Because who you know something of this question & who acted as Secretary for us on one occasion at the India Office. What a mess they have now made of it.

Yours very truly

Moreton Frewen

Brady Place
Sussex
April 2 1920

East African Currency & Exchange.

Sir

I have your letter of March 29th & its interesting Memorandum on the exchange [illegible] s in East Africa. Of course I would greatly like to assist in anyway [illegible] al beautiful Province in which I spent some happy months, but the Memorandum nclose is not altogether easy to follow & I will therefore offer a few suggestions hat they are worth on the general position of your currency.

I think the rupee has, since 1905, treated you well. Any English settler who hundred sovereigns of capital remitted it as 1500 rupees. These 1500 Rs are to day 150 sovereigns. It is true the Government of India made a very large variable in Return on each of the 1500R's, but they guaranteed conversion back to sovereigns and they threw over the scheme at 10 to 1 to 1 — that risk they took. In a sense every rupee (& equally in India) was as a "token" — a subsidiary "coin, & you were partnered with a vast State which 1893 has itself operated a vicious currency system, which intelligent economists considered World proof unworkable & which has broken down after leaching us of our Gold & rying our "Gold Standard". And the [illegible] of its "Gold Drain" to India is still ahead. But for reasons I need not go into the rupee for country as yours is preferable to the sovereign, & enjoying a fixed gold you were much better off than the Nigerian with a silver currency almost primitive as the cowrie shell — its predecessor. On Page 3 of the Memorandum is the statement that "the purchasing power of the rupee in East Africa has increased, except in the case of a few imported commodities". But surely t have greatly diminished & especially in respect of all foreign imports? must be much higher in the U.K. You go on to say that the burden of the was "reduced by over 100 per cent". If prices rise surely the debtor is [illegible]? It is the creditor who suffers. A man who has borrowed money & who pays [illegible] in times of rising prices pays his creditor less [illegible]

[illegible] that the rise of prices greatly assisted debtors & a "debtor community". Of course had all prices except silver (exchange), so that in addition to selling everything you exported r market for twice as many sovereigns you had also got 15 rupees in exchange ad of ten only — that would have been ideal. But finance seldom allows you to in the best of both worlds! On Page 4 (line 14) the unit of value "has been ated", should read, should it not "inflated"?

first Para on Page 5 is I think incorrect. The intending settler who remits a pound at ten rupees in place of fifteen

eally lose his capital which was & is a pound, although he is of course at a
age by contrast with the earlier settler, & even if as you say his "cost of
h increases 50 per cent" (which can only be if wages have risen greatly), yet
orts sisal or timber to London & those prices here have doubled, the producers
must be greater than before.

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course well believe that the great rise in silver is matter for anxiety. It is
that some early settlers enriched by the higher exchange are selling out &
me. (This we know is happening on a large scale in India) If the price of land
in rupees is rising, & those rupees buy ~~sterling exchange~~ sovereigns at 10 in place of
, then these double profits may coax people to realise & come home, while
ding capitalist emigrant to East Africa looking at the ten rupee rate which confronts him is likely to say "I
t until exchange reverts toward fifteen". That any man living will ever again
exchange at less than ten to the sovereign is in the last degree improbable.

And too, I think that just ahead you will discover a very serious shortage
ey. That will be your real trouble. There is no prospect of gold for you & still less of silver. The world
in the throes of a terrible silver famine, & it must take many years even at this
silver price to open up new mines. This silver famine is not the product
r. In the evidence I gave in 1913 before the Chamberlain Commission I gave
es of the silver market, showing that the annual consumption of silver at
, was & had been for some years, much more than its annual production. What trade marts open to silver in India, in France & the United States. Pray note that

Believe me yours faithfully

Moreton Frewen

re

ciated Producers of East Africa

75 Carlton House Regent Street SW

(Not to be published before Tuesday, 4th May,1920)

The Press is authorised to publish the following letter which Lieutenant Colonel L.S Amery, M.P., [illegible] Secretary of State for the Colonies, has addressed to Captain G.E.W. Bowyer, M.C., M.P., on the subject of the recent currency changes in East Africa, and the memorandum to which the letter is a reply:-

" Colonial [illegible]
Downing S[illegible]
S.W.1.
28th April, 1920.

Dear Captain Bowyer,

Thank you for the copy of the memorandum on currency in East Africa which you sent me on the 26th March. I kept [illegible] by me while there was a prospect of the question being raised in the House before the Recess, and since then the holidays have helped to delay my reply.

I do not think it necessary to deal exhaustively with the argument that, by making the gold sovereign legal tender for 15 rupees in 1905 the Government of the East Africa Protectorate (or the Foreign Office and Treasury on their behalf) contemplated putting the [illegible] on a gold basis, with the further assumption that what was really intended was to put the country on a sterling basis, and that the East African Government was consequently under an obligation to keep the rupee at one-fifteenth of the pound sterling, quite irrespective of the relation of the latter to the gold sovereign.

As a matter of fact the framers of the 1905 Order in Council

Council were simply concerned with the provision of convenient currency media for higher and lower amounts than the rupee, and the main device by which they met the former need was the introduction of local currency notes. The use of the sovereign was discussed, ruled out, and inserted at the last moment because it was thought that the growing South African interests would find it convenient. It is quite true of course that in India the value of the rupee in pre-war days was maintained by its fixed equivalence with the sovereign. But as far as East Africa was concerned there was no idea, when the sovereign was made legal tender, of using it to fix the value of the rupee. There certainly was no idea of departing from the rupee as the statutory basis of the East African currency system. The Order in Council of 1905 definitely provided that the rupee was to be the local standard for contracts, and the man who made a rupee contract has no legal ground of complaint if at any rate, if he is asked to fulfil it, any more than the man who made a sterling contract in this country is [illegible] to complain if he is paid in sterling and not in [illegible] sovereigns.

The position of the rupee in East Africa, under the Order in Council of 1905, corresponded in fact exactly with that of the pound sterling in this country. Both were [illegible] legal tender tokens and a [illegible] [illegible] which were normally exchangeable [illegible] [illegible] ratio. In each case [illegible] [illegible] arising out of the war. While sterling [illegible] heavily in terms of gold, the rupee owing to the increase in the value of silver, appreciated in terms not only of sterling but also of gold.

It

It is impossible to ignore the depreciation of sterling in its bearing on this question. To suggest, as is done in the memorandum, that because the gold sovereign was made legal tender in East Africa the rupee was thereby fixed in terms of sterling and that a man who made a rupee contract is entitled to complain if he cannot fulfil it in depreciated sterling, is surely stretching the argument beyond what the circumstances warrant. Nor is it reasonable to insist that the Government should, somehow or other, be able to do in East Africa what it certainly cannot do in this country, or anywhere else, namely make a pound sterling go as far as it did before the war.

It is true that in this country the depreciation of sterling has benefited the debtor, while in East Africa the debtor has lost, and the creditor has gained, by the appreciation of the rupee, though only in so far as the former has to pay out of sterling resources, or the latter remits his receipts to the United Kingdom. The memorandum assumes throughout that the debtor's interest is the only one to be considered. But it is not really possible entirely to dissociate the two interests. The man who is creditor in one aspect is generally also a debtor in another, and nothing could be more injurious to development than Government action which directly undermined the whole basis of credit. In the particular case of East Africa most of the creditors are themselves, directly or indirectly, debtors to India for the rupees which they have advanced. To have compelled them to

accept

accept 1/4d sterling in respect of transactions which they have had to liquidate at 2/4d, or at an even higher rate, would not only have been obviously unfair but would have led to financial chaos.

I have insisted briefly on these points in order to correct certain erroneous assumptions on which the memorandum is largely based. At the same time I wish to make it quite clear that the Colonial Office has been keenly alive to the need of giving all possible assistance to the European settlers in East Africa, both old and new, in so far as they have been adversely affected by the appreciation of the rupee, and to the desirability of securing permanent stability between the East African currency and British sterling. We originally hoped that it might be possible to do this at the old rate of 1/4d to the rupee, and, indeed, at one stage, when the rupee had not yet gone beyond 1/5d, contemplated making the British currency note legal tender in East Africa at 15 rupees, as stated in the memorandum. There were practical objections to this, but the same result was aimed at and could have been secured, by the [illegible] of a [illegible] Board and the issue of a [illegible] currency, if the sudden further appreciation of the rupee towards the end of last year and the subsequent rapid depreciation of sterling in terms of gold culminating in the decision of the Indian Government to fix the rupee at one-tenth of the gold sovereign, i.e. about 2/10d sterling at the then rate of the gold exchange, had not absolutely precluded the possibility of carrying out such a policy.

For

B.

For one thing it had become evident even before this last decision that to force back the rupee to 1/4d sterling, which might have been feasible when the rupee was at 1/6d would, with the rupee at 2/-, have not only produced chaos in local prices, but would also have meant that banks and other creditors would, in order to protect themselves, have been compelled to call in all advances, with ruinous consequences to the very settlers whom it was intended to help.

For another it was essential to keep in mind that this was not only an exchange but a currency problem. The actual currency consisted of Indian rupees, for which the natives were unwilling to take paper notes as a sufficient substitute, while the manufacture of a token coinage of lower intrinsic value was a matter of many months. The native, who is after all the main producer of the country, is also the chief drain upon the currency: the Uganda cotton crop alone is expected to represent a value to the native grower of about twelve million rupees. It was of the greatest importance to avoid any risk of the disappearance of the existing currency by melting, hoarding or smuggling out of the country before the new token currency could be introduced. Even with the value fixed at 2/- there has been a strong tendency for the [illegible] to disappear, and no small difficulty has been experienced in finding enough currency to purchase the Uganda cotton crop. At 1/4d there would have been no currency at all; the cotton crop would have been left unsold, and a grave set back given to one of the most promising features in the development of all East

Africa

Africa, and to the hopes of British trade which that development implies.

Then again the Colonial Office had to consider the interests, not referred to in the memorandum, of the Indian community. This body which is responsible for a large proportion of the wholesale business of the country and for practically the whole of the small retail trade, is not only financed from India and obliged to discharge its obligations in rupees, but lives largely on Indian produce whose cost in East Africa would naturally be increased in the proportion in which the East African exchange was brought down as compared with the Indian exchange. Even the change actually decided on has been the subject of very strong protest from the Indian residents in East Africa. To have compelled them to accept 1/4d in respect of transactions which they had ultimately to settle in India at 2/7d or over, and practically to double the cost of the rice and other necessaries which they imported from India, would have involved a wholly unjustifiable measure of hardship upon them.

It is necessary further to keep in mind that the Colonial Office has to settle this question with due regard not only to the different interests in the British East African Protectorate, but to the interests of the adjoining territories. It was impossible to settle one rate for the rupee in British East Africa and have a different rate on the other side of an imaginary boundary line in Uganda or the Tanganyika Territory.

Territory, and even if a 1/4d rate could conceivably have been carried out in British East Africa it would have been entirely against the interests of the other two mainland territories, and could not have been forced upon them by the Colonial Office.

A final objection to the attempt to force back the rupee to 1/4d, after it had gone above 2/4d, was the probability that the result of so violent a change would have been simply to upset the whole scale of local prices, and that the whole purpose of the measure would thus have been frustrated. We were constantly assured at the time that local prices were immutable, whatever the exchange. But our most recent information from East Africa is that the prices of local services and produce are rising in terms of rupees in spite of the higher value of the rupee as compared with sterling, and there can now be little doubt that an attempt to force the rupee down to 1/4d would only have defeated its object, and that any advantage to the settler from his obtaining 15 rupees to the pound would have been neutralised by the increased wages and prices which he would have had to pay.

In view of all these circumstances I am inclined to believe that the decision to stabilise the rupee (in future to be called the florin) at 2/- sterling was not only the fairest compromise between the various interests affected and marked the furthest length to which it was possible to go from the point of view of the local currency situation, but was also calculated to give to the settler the [illegible] measure of relief from the effects of the appreciation of the rupee which it was, in fact, possible to give. To have

attempted

attempted to have gone further would have created universal financial chaos in East Africa without achieving the object aimed at.

Over and above the relief afforded by stabilisation at 2/- everything possible is being done to ease the position of the new settlers to whom land has been allotted under the Soldiers' Settlement Scheme of last year. In addition to the complete revaluation of their land in terms of sterling, no fees or charges are being collected at present, and the Governor will on his return to the Protectorate consider the possibility of allowing a postponement of the payments due by the settlers to the Government. As the payment for the farms is in any case spread over a long period of years the relief will assist the settlers during each year of their operations. Ordinary working expenses must in any case increase in terms of sterling, but it must be remembered that the prices obtained for exported products are themselves largely swollen by the depreciation of sterling, while what the settlers sell for local consumption will be paid for in local currency and will not be affected by the value of that currency in terms of sterling.

I might note in passing that the memorandum seem to imply that it is the East African producer alone who is hit by the [illegible] of the circulating medium. But the main East African production industries - coffee and sisal - are both industries in which the competitors, who, by virtue of the large share of their production, dominate the market and fix the price are, in each case, countries with an appreciated currency, viz. Brazil and Mexico.

That Missionary funds raised here will not go so far in East Africa today as if the rupee had not appreciated or

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the pound sterling had not depreciated, is true. But I am afraid Missionary Societies are being hit in that way all the world over as, indeed, are Hospitals and other Societies which work at home. The Societies, like the settlers, have at any rate, reason to be thankful that as regards East Africa the Colonial Office, in spite of all the difficulties involved, have cut loose from the Indian rupee and have established a new currency system on a permanent sterling basis.

To sum up: I venture to suggest that while no measures which could have been taken could possibly have saved the European settlers in East Africa from all the consequences of the depreciation of sterling, itself an inevitable consequence of the war, or from all the consequences of the appreciation of the Indian rupee, the measures actually taken have afforded the greatest amount of relief possible without a general dislocation of all business, have secured a permanently stable exchange for East Africa in terms of sterling, and have been devised in the best interests of every section of the East African community.

I propose, if you have no objection, to publish this correspondence.

Yours sincerely,

(Sd) L.S. AMERY.

CAPTAIN [illegible] M.P.

MEMORANDUM

British East Africa, Uganda and now the Tanganyika Territory are the only portions of His Majesty's African Dominions upon which Indian rupee currency has been imposed. It is useless now to dwell upon the inadequate reasons that led to its adoption or the lack of political foresight on the part of the Government which resulted in its retention.

In 1905 the Government of British East Africa followed the example of the Government of India and established the £ as the Statutory unit of value in East Africa. The rupee was thus definitely assigned by law to the position of a token coin in the ratio of fifteen to the £, or 1/4d to the rupee. It remained legal tender for an unlimited amount, but as the Fowler Committee of 1899 pointed out, the fact that the amount for which it is legal tender is unlimited does not destroy the token character of a coin.

It is necessary to emphasize this point as the Colonial Office has recently shown a disposition to question the statement that by the Law of 1905 the currency in East Africa was put on a gold or sterling basis. Their position is, of course, untenable. The currency must have been either on a gold or a silver basis. Had it been on a silver basis the rupee would have circulated at no more than its intrinsic value of about 10d. The so-called problem of Exchange in East Africa is accordingly not at all one of exchange in the ordinary meaning of the term. All the difficulties that have arisen are due merely to the retention of a metal as the medium for a subsidiary coinage, after it had proved its unsuitability for the purpose, and the consequent failure of Government to maintain the token character of this coinage.

During

During the war the Imperial Government commandeered gold supplies, so that the sovereign was no longer available for East African use, but omitted to make its substitute, the Treasury Note, legal tender in East Africa. At the same time the price of silver rose until the intrinsic value of the rupee overtopped its token value.

A similar situation has arisen in the United Kingdom where the intrinsic value of the silver coinage is now far above its token value. The difficulty is being met here in the only sensible manner. The ratio of the shilling to the £ sterling is not to be altered but a new coinage is to be issued of which the intrinsic value will be less than the token value. Had the Government of East Africa taken similar action in 1916 the present disastrous state of affairs would have been averted. For the Home Government, distracted as they were by the crying needs of war, some measure of excuse may be found for their failure to deal with the situation. For the local Government of East Africa, it is hard to find adequate terms of censure. No effort was made to maintain the legal ratio of the token coin to the unit of value in spite of protests from the white community and informed suggestions as to the method of achieving this. On the contrary, the subsidiary coin was allowed to dominate the position, to overwhelm the statutory unit of value and to impose a new standard of value upon the country.

In 1918 the rupee rose to 1/8 and in November 1919 stood at 2/-. At that time the Colonial Office

was

except perhaps, in respect of a few imported commodities. Labour still demanded, as indeed it demands to the present day, the same number of rupees, in some localities more, freights were actually increased in terms of rupees, and all taxes and railway charges were still demanded in rupees. All local costs of production were thus raised by over 100%, quite apart from the world-wide rise in prices which was affecting East Africa equally with the rest of the world. At the same time the burden of the debtor was similarly raised by over 100%. In short all producing industries in the country were faced with bankruptcy.

At last the Colonial Office were roused to action. The Bradbury was made legal tender at 2/4½ and was to be brought back by degrees to 2/-. Owing to the action of the banks in East Africa the transitional period has been dispensed with and the rupee is now stabilised at 2/- or Rs. 10 to the £ sterling. A new token currency is to be issued which the Colonial Office now announce is to consist of florins and shillings. Thus a two shilling piece takes the place of a one-and-fourpenny piece in every relation ~~to~~ of commerce and industry and the stabilization of the rupee, camouflaged under the name of florin, at 2/- instead of 1/4d as complained.

The measure of relief provided by the Colonial Office has given the hard tried industries of East Africa a breathing space in which to take stock of their position. But the relief so far afforded is not adequate to the needs of the country, if it is to retain its present position as a [illegible]er of raw materials; still less adequate is it, if

any

any hopes are to be retained of early development and expansion. All that has been done is to restore the position of November last when the Colonial Office admitted that remedial measures were urgently called for, and the Under Secretary pledged himself to provide them at an early date. All local costs of production remain at an increase of 50% and the debtors' burden is increased in the same ratio. His position is thus in marked contrast with that of the debtor in all European countries, whose financial position has been detrimentally affected by the war. In all such countries the unit of value has been deflated and debts contracted in terms of gold are repayable in depreciated currency. In the United Kingdom a debt of a thousand sovereigns contracted before the war can now be liquidated by the payment of a thousand Bradburys.

As is the case in all purely agricultural countries, the debtor class in East Africa is in the main the producing class. It is the planter and the farmer who have been obliged to obtain assistance from the banks or private mortgagees for the development of their plantations and farms. The pre-war settlers, nearly all of them, left their estates to fare as best they might without supervision, while they themselves joined up for service in one theatre or another of the war. They returned to find that years of effort had been wiped out by inevitable neglect during the period of their absence and they have strained their credit to its utmost in the effort to rehabilitate their affairs. Their war bonus now takes the shape of a ~~xx~~ 50% addition to their debts, while the rise in the costs of production defers their prospects of liquidating these debts into a future too dim to discern.

To the pre-war settlers have now been added some [illegible]000 ex-soldiers who, as a reward for their service to the Empire, have recently been granted land in British East Africa. The cost of their land, the rental and the cost of development were all calculated by the Government on the old basis of fifteen rupees to the £ sterling. The estimate furnished to them of the profits to be anticipated from their industry was calculated on the same basis. Now at one fell swoop they find themselves deprived of one-third of their capital on transfer to East Africa, while their costs of production are increased by 50%. The estimate of profits issued to them thus becomes illusory.

An attempt is now being made to adjust matters by the promise of reductions in the rupee price and rental of their land. They are in fact to be allowed to pay the original sterling price of their farms at the rate of Rs. 15 to the £. This concession can avail them little. If the increased costs of production prevent the success of their enterprise, the price and rental of their farms are of little moment. The boon offered is merely the privilege of paying less for the pleasure of ultimate failure.

Last but not least comes the native who after all is the biggest producer in the country. His interests are identical with those of the settler. As an independent producer, he is primarily concerned with the rupee cost of marketing his exported produce. As a wage-earner he is dependent upon the prosperity of the settler.

Missionary Societies, the only bodies that have yet attempted the moral or technical education of the native, are also affected. Their funds are raised in sterling and if their activities are not to be seriously diminished, they must now obtain half as [illegible] again as

before

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before the rise in the rupee, no easy task at the present time.

A remarkable feature in the situation is that Government stand to gain as much as the producing interests by a restoration of the rupee to its former level of 1/4. Before the war, British East Africa had a pleasant nest egg of some £500,000. This sum has been dissipated during the war, largely as a result of the increased cost of administration caused by the rise in the value of the rupee. Last year, for the first time for many years in East Africa, there was a deficit which had to be borrowed from the British Treasury. Moreover, the Government are committed to a programme of railway, harbour, and road construction, to be carried out at an early date. Loans for such purposes must of necessity be raised in sterling. At a conservative estimate at least one-half of the total sums so raised must be expended on local costs in Africa. Let us suppose that these schemes will required the modest capital of £6,000,000. Of this sum, a minimum of £3,000,000 must be transferred to East Africa for local costs and one-third, or £1,000,000 is at once lost to Government. Further, the contracts of East African officials are drawn in terms of sterling. The Colonial Office admit that if salaries are to be maintained at the same level in terms of rupees, an all-round increase will be required. The cost of this increase is estimated at £100,000 annually, which capitalized at 5% represents a sum of £2,000,000.

There is thus no interest in the country which in the long run can fail to profit by the restoration of the currency to its former basis. All are bound up with the

the prosperity of the producing interests. No interest need suffer, even temporarily, for the scheme submitted to the Colonial Office provides for the compensation of those who can prove loss from the proposed measure. An estimate of the sum required for this purpose is £400,000, a sum which would be saved over and over again on their programme of construction and the pay of officials.

East Africa now stands at the parting of the ways. Uganda, Tanganyika and British East Africa together form an almost unrivalled field for the production of raw materials. With a soil of amazing fertility, a rainful usually ample, infinite variety of altitude, and a supply of native labour, which if properly organized, would suffice for the needs of the country, there appears no limit to the possible expansion of these territories. Cotton, copra, coffee, flax fibre, maize, rubber, sugar, and wheat are amongst their products. There are vast forests of some of the finest timber in the world. Cattle, sheep and pigs all thrive. Above all the highlands provide an equable climate where the white man can settle and retain his health. If the necessary stimulus be applied, if the relief so far granted by the Colonial Office be followed by an ampler measure, production is bound to increase immediately and the country will progress with rapid strides. Revenue will improve, the deficit of £375,000 will be wiped out, and the drain on the British Treasury cease. If a halt be now called and the decision of the Colonial Office be taken as a final settlement of the case, a staggering blow

will

will be dealt to all producing industries from which they will take years to recover and then only if prices are raised against the British consumer and manufacturer. The deficit resulting from the high rupee cannot be met by further taxation of industry that is perishing under the high rupee, and East Africa is compelled to financial reliance upon grants-in-aid from the Imperial Treasury.

It is noteworthy that all the other [illegible] Dependencies of Africa, which are free from this [illegible] incubus, have large surpluses although their natural resources cannot compare with those of the rupee zone. It cannot be gainsaid that a sound currency system has been a large factor in their present prosperity.

IAL OFFICE,
wning Street,
3rd May, 1920.

SOLDIER SETTLERS IN B. E. A.

The History of their Betrayal.

In December, 1915, the East African War Council (acting on the initiative of Sir Northrup McMillan) by War Council Resolution No. 82, advised the Governor of the East Africa Protectorate to adopt a policy of close settlement by men who had served in the campaign.

In a despatch dated January 8th, 1916, and addressed to the Secretary of State for the Colonies, Sir H. Conway Belfield, Governor of the Protectorate, supported this resolution in the belief that emigration on a large scale will take place to those parts of our Colonial Empire which can offer the inducements of temperate climate, [illegible] and profitable enterprise.

The Secretary of State, Mr. Bonar Law, replied March 2nd, 1916, [illegible] generally [illegible] that "For the present it will be sufficient if you will cause a memorandum to be prepared setting out in detail the amount of suitable land available in the Protectorate, and its situation, the amount of capital estimated to be required for the purchase and development of an estate, including the building of a house, purchase of stock, equipment, implements, etc. The memorandum should also state what area of land would be required for the successful cultivation of likely crops . . . . . and also show what return on capital is to be looked for in the first and each subsequent year up to, say, seven years. The memorandum should further indicate what expenditure by the Government on roads, or railways, would be required to render such lands really available for settlement."

The East African Government appointed a Committee consisting of a Land Officer, the Director of Agriculture and the Director of Public Works to prepare the memorandum.

The memorandum, which was published by the Government, gave detailed sterling estimates of costs and profits all calculated on the supposition that the rupee represented 1/15th of the £1, and advised that the minimum capital required was £700, and that 3,000 farms should be rendered available for settlement.

Mr. Bonar Law, in a despatch dated November 3rd, 1916, gave instructions that the scheme should be proceeded with.

The Currency Law of East Africa, 1905, provided that the £1 sterling should be the legal unit of value, and that the Indian rupee should be a token coin of unlimited tender, denoting one-fifteenth of the £1 or [illegible]

Owing to the failure of the Indian Government to control its currency in accordance with the Indian Act No. [illegible] of 1899 in August, 1917, the rupee (owing to the rise in the value of silver) "escaped" and became worth 1s. 5d.; by April, 1919, it had risen to 1s. 6d. The Manager of the Standard Bank of South Africa, in Nairobi, endeavoured to make the East Africa Government realise the significance of this happening, and in June, 1918, I proposed resolutions on the War Council:

(1) That the "Bradbury" should be made legal tender to rank with the sovereign, withheld by the Imperial Government.

(2) That the East African Treasury should make immediate provision for the issue of an East African Treasury Rupee one note to replace the silver rupees which would be driven out by the "Bradbury."

The Convention of Associations in January, 1919, passed unanimous resolutions calling upon the Government to take action in the above sense.

Nothing was done till the arrival of the new Governor, Sir Edward Northey, who urged the Home Government to take immediate action, and gave me a letter to the Colonial Office to enable me, as Chairman of the Convention of Associations, to press upon the Colonial Office the desperate position of East African [illegible] if control of the currency was not immediately recovered.

On my arrival in England in May, 1919, I met the Under Secretary of State for the Colonies and [illegible] an assurance that the matter would be righted at an early date.

In the meantime the Colonial Office had been proceeding with the Soldiers' Settlement Scheme and issued a definite advertisement in June, 1919, offering a number of farms for selection at a valuation calculated on a sterling basis, but expressed in rupees at the rate of 15 to the £1, and requiring proof of means to the amount of £1,000.

The [illegible] and development [illegible] of the land to be allotted were [illegible] in the East Africa currency [illegible]

[illegible] 1919, I was invited by the Overseas Settlement Committee to [illegible] lectures [illegible] the advantages and disadvantages of British East Africa.

[illegible] with the Under Secretary of State as to the advice I was to give in respect of the exchange position, it was agreed that I should advise all applicants not to remit their capital to East Africa (the rupee being then at 1s. 8d.) and I was again assured that steps had actually been taken to recover control of the currency.

On this assurance I gave the lectures and acted as an innocent siren for the Colonial Office, and lured a number of soldier settlers on the rocks.

Had I believed for one moment that the Colonial Office would go back on this assurance I should have begged all these men to avoid East Africa, as the costs of production based on a rupee exceeding its legal value of 1s. 4d., negative all the Government calculations on which the Scheme was based.

The land settlement scheme was a pronounced success, nearly all the
allottees sold out and made their arrangements to sail for East Africa.

On the 28th June, I wrote to the Under Secretary, urging the impo
of the currency problem and concluded "if you do not take immediate acti
will merely fill the country with revolutionaries, who will have been plu
the inertia of the Authority which is inviting them to the country."

Constant correspondence on the subject continued and on August
"We telegraphed detailed proposals to the Governor of the East Africa P
his reply has not yet been received. We are fully alive to the critical pos
in the rupee to 1s. 10d., but we cannot move now until Sir Edward Norther

The detailed proposals were to make the "Bradbury" legal tend

The Governor accepted the proposals.

On September [illegible], I wrote urging that some general statement sho
asking him to "remember that people in East Africa are by past experi
matter which requires settlement between the local Government and the
delay, before a conclusion (if any) is reached. As this particular problem
bankruptcy unless something is done instanter, a note of encouragement
probably politically wise."

On the same date, in the innocence of my heart, I wrote to the
reply to their frantic cables. "I will take this opportunity of informing
officials at the Colonial Office have clearly realised the critical position in w
upward movement of the rupee. I am convinced they have been and
expedite a solution of our problem. As you are aware, I am not easily satis
in this case I am convinced that we can confidently leave the matter in

I had received the Under Secretary's personal assurance that there

On September 18th, I wrote to the Under Secretary "I do trust t
relieve the position, as a 2s. rupee must involve a very rapid financial
Protectorate."

In the meanwhile the Protectorate finance collapsed owing to the
due to the rise in the rupee; the deficit had to be borrowed from the Bri
came to England.

Throughout this period the Government continued to keep its
a 1s. 4d. [illegible] the Crown Agents wrote to me (Pass 1709 [illegible]
[illegible] practice, the value of the rupee is taken at the fixed rate of 1s. 4d. [illegible]
to advertise land for sale, giving the price in rupees with the sterling equiva
and the Under Secretary of State continued to advise the [illegible] growing
losses by [illegible] down because the matter would be righted at an early

Finally, on February 18th, 1920, when the rupee reached 2s. 10d.
that the rupee is "pegged" at 2s. [illegible], to be reduced ultimately to 2s. Th
breach of faith [illegible] that the reduction of the rupee to its [illegible] meaning
injustice to the Banks and all other creditors, more particularly to those

In ordinary language this means that the Soldier Settlers, new and
and the Bazaar in open defiance of the Monetary Law of the Protectorate,
of the Government of East Africa and Uganda.

The effects of this wicked decision are as follows :—In the case of t
they were engaged in the local campaign, and during their absence from the
largely their commitments to the Banks. They return to the resuscitation
[illegible] and permanent increase of 50 per cent. in their Bank overdra
increase of 50 per cent. in their costs of production.

I do not for one moment believe that this extortion is desired by the
through the war period with conspicuous skill and sympathetic assistance

The Colonial Office decision is therefore only acceptable to t
participation in the local campaign was strictly confined to organising
and similar profitable operations from which vast wealth was [illegible]
[illegible] they may not be able to transmit these gains to India intact.

In the case of the new Soldier Settlers, they are [illegible]
the price they agreed to pay for their land [illegible] per cent
running, marketing and living expenses are permanently increased
calculations of profits, officially given by the Government are reduced to
obligations are by a stroke of the pen written up 50 per cent.

As an example of the tragic results of official [illegible], irresolu
scale of moral obligations, I submit that the case of the Soldier Settler
British East Africa is difficult t

EW

Chairman of Con

Member of the S

52, DRAYCOTT PLACE, S.W. 3

20th February, 1920

HISTORY OF THE CURRENCY QUESTION IN EAST AFRICA, WITH ITS EFFECTS UPON THE INDUSTRIES OF THAT COUNTRY AND THE PRODUCTION OF RAW MATERIALS WITHIN THE EMPIRE.

ued by
SOCIATED PRODUCERS OF EAST AFRICA.
75, CARLTON HOUSE,
LOWER REGENT STREET, S.W.

History of the Currency Question in East Africa, with its effects upon the Industries of that Country and the Production of Raw Materials within the Empire.

[illegible] East Africa, Uganda, and now the Tanganyika Territory are the only portions of His Majesty's [illegible] Dominions upon which Indian rupee currency [illegible] been imposed. It is useless now to dwell upon the [illegible] reasons that led to its adoption or the lack [illegible] political foresight on the part of the Government [illegible] resulted in its retention.

In 1905 the Government of British East Africa [illegible] the example of the Government of India and [illegible] the £ as the statutory unit of value in East [illegible]. The rupee was thus definitely assigned [illegible] the position of a token coin at the value of [illegible] 4d. to the rupee. It remained legal tender for an unlimited amount; but, as the Fowler Committee of 1899 pointed out, the fact that the amount for which it is legal tender is unlimited does [illegible] the token character of the coin.

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[illegible] at this juncture interests, apparently [illegible] profits than with the per- [illegible] of the country, speculators in rupees, [illegible] had been operating on a rising silver market, nervous for their rupee balances, intervened e negotiations. The Colonial Office hesitated and lost. No action was taken to remedy the situation the rupee rose rapidly till in January of this year it d at 2s. 4d.

At the beginning of February the Indian Govern- announced its decision to stabilize the rupee at gold, with the result that its sterling value at once ed to over 2s. 9d. In the meantime the purchasing er of the rupee in East Africa had not increased pt perhaps, in respect of a few imported com- ties. Labour still demanded, as indeed it demands the present day, the same number of rupees, in some es more, freights were actually increased in terms pees, and all taxes and railway charges were still anded in rupees. All local costs of production were raised by over 100 per cent., quite apart from the d-wide rise in prices which was affecting East Africa lly with the rest of the world. At the same time

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COLONIAL OFFICE,
DOWNING STREET, S.W.1.

20th April, 1920.

Dear Captain Bowyer,

Thank you for the copy of the memorandum on currency in East Africa which you sent me on the 26th March. I kept it by me while there was a prospect of the question being raised in the House before the recess, and since then the holidays have helped to delay my reply.

I do not think it necessary to deal exhaustively with the suggestion that, by making the gold sovereign legal tender for 15 rupees in 1905, the Government of the East Africa Protectorate (or the Foreign Office and Treasury on their behalf) contemplated putting the country on a gold basis or with the further assumption that what was really intended was to put the country on a sterling basis, and that the East African Government was consequently under an obligation to keep the rupee at one-fifteenth of the pound sterling, quite irrespective of the relation of the latter to the gold sovereign.

As a matter of fact the framers of the 1905 Order in Council were simply concerned with the provision of convenient currency media for higher and lower amounts than the rupee, and the main device by which they met the former need was the introduction of local currency notes. The use of the sovereign was discussed, ruled out, and inserted at the last moment because it was thought that the growing South African interests would find it convenient. It is quite true of course that in India the value of the rupee in pre-war days was maintained by its fixed equivalence with the sovereign. But as far as East Africa was concerned there was no idea, when the sovereign was made legal tender, of using it to fix the value of the rupee. There certainlywas no idea of departing from the rupee as the statutory basis of the East African currency system. The Order in

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of 1905 definitely provided that the rupee was to be the legal standard for contracts, and the man who made a rupee contract has no legal ground of complaint, at any rate, if he is asked to fulfil it, any more than the man who made a sterling contract in this country is entitled to complain if he is paid in sterling and not in gold sovereigns.

The position of the rupee in East Africa, under the Order in Council of 1905, corresponded, in fact, closely with that of the pound sterling in this country. Both were unlimited legal tender tokens and standards of contract and account. Both were normally convertible into gold at a definite ratio. In each case convertibility was suspended by circumstances arising out of the war. While sterling, however, depreciated heavily in terms of gold, the rupee, owing to the increase in the value of silver, appreciated in terms not only of sterling but also of gold.

It is impossible to ignore the depreciation of sterling in its bearing on this question. To suggest, as is done in the memorandum, that because the gold sovereign was made legal tender in East Africa, the rupee was thereby fixed in terms of sterling and that a man who made a rupee contract is entitled to complain if he cannot fulfil it in depreciated sterling, is surely stretching the argument beyond what the circumstances warrant. Nor is it reasonable to insist that the Government should, somehow or other, be able to do in East Africa what it certainly cannot do in this country, or anywhere else, namely make a pound sterling go as far as it did before the war.

It is true that in this country the depreciation of sterling has benefited the debtor, while in East Africa the debtor has lost, and the creditor has gained, by the appreciation of the rupee, though only in so far as the former has to pay out of sterling resources, or the latter remits his receipts to the United Kingdom. The memorandum assumes throughout that the debtor's interest is the only one to be considered. But it is not really possible entirely to dissociate the two interests. The man who is creditor in one aspect is generally also a debtor in another, and nothing could be more injurous to development than Government action which directly undermined the whole basis of credit. In the particular case of East Africa most of the creditors are themselves, directly or indirectly, debtors to India for the rupees whichthey have advanced. To have compelled them to accept 1/4d. sterling in respect of transactions which they have had to liquidate at 2/4d, or at an even higher rate, would not only have been obviously unfair, but would have led to financial chaos.

I have insisted briefly on three points in order to correct certain erroneous assumptions on which the memorandum is largely based. At the same time I wish to make it quite clear that the Colonial Office has been keenly alive to the need of giving all possible assistance to the European settlers in East Africa, both old and new, in so far as they have been adversely affected by the appreciation of the rupee, and to the desirability of securin permanent stability between the East African currency and British sterling. We originally hoped that it might be possible to do this at the old rate of 1/4d. to the rupee, and indeed, at one stage, when the rupee had not yet gone beyond 1/6d, contemplated making the British currency note legal tender in East Africa at 15 rupees, as stated in the memorandum. There were practical objections to this, but the same result was aimed at, and could have been secured, by the setting up of an Exchange Board and the issue of a token currency, if the sudden further appreciation of the rupee towards the end of last year and the subsequent rapid depreciation of sterling in terms of gold, culminating in the decision of the Indian Government to fix the rupee at one-tenth of the gold sovereign, i.e. about 2/10d sterling at the then rate of the gold exchange, had not absolutely precluded the possibility of carrying out such a policy.

For one thing it had become ev[illegible] before this last decision that to force back the rupee to 1/4d sterling, which might have been feasible when the rupee was at 1/8d, would, with the rupee at 2/4d, have not only produced chaos in local prices, but would also have meant that banks and other creditors would, in order to protect themselves, have been compelled to call in all advances, with ruinous consequences to the very settlers whom it was intended to help.

For another it was essential to keep in mind that this was not only an exchange but a currency problem. The actual currency consisted of Indian rupees, for which the natives were unwilling to take paper notes as a sufficient substitute, while the manufacture of a token coinage of lower intrinsic value was a matter of many months. The native, who is after all the main producer of the country, is also the chief drain upon the currency: the Uganda cotton crop alone is expected to represent a value to the native grower of about twelve million rupees. It was of the greatest importance to avoid any risk of the disappearance of the existing currency by melting, hoarding or smuggling out of the country before the new token currency could be introduced. Even with the value fixed at 2/- there has been a strong tendency for the Indian rupee to disappear, and no small difficulty has been experienced in finding enough currency to purchase the Uganda cotton crop. At 1/4d there would have been no coin left at all; the cotton crop would have been left unsold, and a grave set back given to one of the most promising features in the development of all East Africa, and to the hopes of British trade which that development implies.

Again the Colonial Office had to consider the interests, not referred to in the memorandum, of the Indian community. This body which is responsible for a large proportion of the wholesale business of the country and for practically the whole of the small retail trade, is not only financed from India and obliged to discharge its obligations in rupees, but lives largely on Indian produce whose cost in East Africa would naturally be increased in the proportion in which the East African exchange was brought down as compared with the Indian exchange. Even the change actually decided on has been the subject of very strong protest from the Indian residents in East Africa. To have compelled them to accept 1/4d in respect of transactions which they had ultimately to settle in India at 2/4d or over, and practically to double the cost of the rice and other necessaries which they imported from India, would have involved a wholly unjustifiable measure of hardship upon them.

It is necessary further to keep in mind that the Colonial Office had to settle this question with due regard not only to the different interests in the British East Africa Protectorate but to the interests of the adjoining territories. It was impossible to settle one rate for the Rupee in British East Africa and have a different rate on the other side of an imaginary boundary line in Uganda or the Tanganyika Territory, and even if a 1/4d rate could conceivably have been carried out in British East Africa it would [illegible] the interests of the other two mainland territories, and could not have been forced upon them by the Colonial Office.

A final objection to the attempt to force back the rupee to 1/4d, after it had gone above 2/4d, was the probability that the result of so violent a change would have been simply to upset the whole scale of local prices, [illegible] that the whole purpose of the measure would thus have been frustrated. We were constantly assured at the time that local prices were immutable, whatever the exchange. But our most recent information from East Africa is that the prices of local commodities and products are rising in terms of rupees in spite of the higher value of the rupee as compared with sterling, and there can now be little doubt that an attempt to force the rupee down to 1/4d would only have defeated its object, and that any apparent gain to the settler from his obtaining 15 rupees to the pound would have been neutralised by the increased wages and prices which he would have had to pay.

In view of all these circumstances I am inclined to believe that the decision to stabilise the rupee (in future to be called the florin) at 2/- sterling was not only the fairest compromise between the various interests affected and marked the furthest length to which it was possible to go from the point of view of the local currency situation, but was also calculated to give to the settler the greatest measure of relief from the effect of the appreciation of the rupee which it was, in fact, possible to give. To have attempted to have gone further would have created universal financial chaos in East Africa without achieving the object aimed at.

Over and above the relief afforded by stabilisation at 2/- everything possible is being done to ease the position of the new settlers to whom land has been allotted under the Soldiers' Settlement Scheme of last year. In addition to the complete revaluation of their land in terms of sterling, no fees or charges are being collected at present, and the Governor will

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on his return to the Protectorate to consider the possibility of allowing a postponement of the payments due by the settlers to the Government. As the payment for the farms is in any case spread over a long period of years the relief will assist the settlers during each year of their operations. Ordinary working expenses must in any case increase in terms of sterling, but it must be remembered that the prices obtained for exported products are themselves largely swollen by the depreciation of sterling, while what the settlers sell for local consumption will be paid for in local currency and will not be affected by the value of that currency in terms of sterling.

I might note in passing that the memorandum seems to imply that it is the East African producer alone who is hit by the appreciation of the circulating medium. But the main East African plantation industries - coffee and sisal - are both industries in which the competitors, who, by virtue of the large scale of their production, dominate the market and fix the price are, in each case, countries with an appreciated currency, viz. Brazil and Mexico.

That Missionary funds raised here will not go far in East Africa to-day as if the rupee had not appreciated or the pound sterling had not depreciated, is true. But I am afraid Missionary Societies are being hit in that way all the world over as, indeed, are hospitals and other Societies which work at home. The Societies, like the settlers, have, at any rate, reason to be thankful that as regards East Africa the Colonial Office, in spite of all the difficulties involved, have cut loose from the Indian rupee and have established a new currency system on a permanent sterling basis.

To sum up I venture to suggest that while no measures which could have been taken could possibly have saved the

European settlers in East Africa from all the consequences of the depreciation of sterling, itself an inevitable consequence of the war, or from all the consequences of the appreciation of the Indian rupee, the measures actually taken have afforded the greatest amount of relief possible without a general dislocation of all business, have secured a permanently stable exchange for East Africa in terms of sterling, and have been devised in the best interests of every section of the East African community.

I propose, if you have no objection, to publish this correspondence.

Yours etc.,
(Signed) L.S. AMERY.

N G.E.W. BOWYER, M.C., M.P.

B/16502/20

E. Africa

DRAFT.

[illegible]es Notice

MINUTE.

Mr. Jeffries 29.4.20.
Mr. Parkinson 29.4.20
Mr. Bottomley 29.4.20
Mr. Grindle.
Sir H. Lambert.
Sir H. Read.
Sir G. Fiddes.
Col. Amery.
Lord Milner.

concur – see
slip attached

Sent Press 3/5

The Press is authorised to publish the following letter which Lieut-[illegible] L. S. Amery, M.P., Under-Secretary of State for the Colonies, has addressed to Capt. G. E. W. Bowyer, M.C., M.P., on the subject of the recent currency changes in East Africa, and the memorandum to which the letter [illegible]