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Development and Stability in Central and West Africa

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Development and Stability in Central and West Africa

Central banking institutions will soon be established in the Central African Federation (the Rhodesias and Nyasaland) and the Gold Coast. Sometime in 1956, the Bank of Rhodesia and Nyasaland is expected to commence operations as a full-fledged central bank; the necessary legislation should be approved by the Federal Parliament early in the year. When the Gold Coast attains independence, ^{1/} a new national currency will be issued with the Bank of the Gold Coast, a government-owned bank founded in 1953, acting as Bank of Issue.

In recent years, these two areas have been able to maintain internal stability in the face of booming exports and vigorous domestic growth. Both have been able to channel export earnings to finance internal development. Their stabilization programs have differed in that the Gold Coast depended entirely upon official savings while the Rhodesian Federation could draw in addition upon a substantial volume of private savings. This difference reflects the contrast between the developed banking system in the Federation and the rudimentary financial organization in the Gold Coast. Because modern banking has emerged in the Rhodesias under the same note-issue arrangements as were in effect in the Gold Coast, the backwardness of Gold Coast financial institutions cannot be attributed to the absence of a central bank. In the steps thus far taken, the authorities in both countries have been mindful of the dangers of introducing central bank credit into a community with limited or only meager private monetary savings: they have concentrated upon the growth of financial institutions to promote private credit and savings in their attempts not to interrupt the tradition of conservative finance which characterized their countries as British colonial areas.

Sources of inflationary pressure

Since 1950, booming export prices and vigorous internal growth have generated inflationary pressures which have threatened economic stability in the Central African Federation and in the Gold Coast.

On the export side, the Federation has benefitted from a copper boom, and the Gold Coast from a cocoa boom. The expansion in Federation exports from £91 million in 1950 to £155 million in 1954 (see Table 1) reflected a rise in prices, a heavier copper volume, and a growing proportion of refined electrolytic copper in

^{1/} The New York Times has reported that the Gold Coast Government has set as a goal the achievement of sovereign status by the end of 1956. (December 7, 1955, p. 10)

place of the blister metal. The 49-per cent rise in Gold Coast exports, which rose from £77 million in 1950 to £115 million in 1954, reflected only favorable prices overseas: the Gold Coast index of average export value rose about 70 per cent but export volume declined by 12 per cent.

The predominant role of foreign trade make both these countries vulnerable to inflation in overseas markets. Exports comprise about half the Rhodesian gross national product and a larger portion of money income in the Gold Coast. Furthermore, instead of being diversified over a range of products, exports are concentrated in a single major raw primary product which has experienced wide price fluctuations in the post-war period.

Distribution and output limitations also increase the vulnerability of the African economies. To obtain overseas consumer goods, for example, six months can elapse before a stepping up of orders produces heavier arrivals at African ports. Port and transport congestion further slow down distribution. These limitations are particularly severe in the Gold Coast where booming cocoa incomes tend to overtax local food and distribution capabilities. In the words of the Economic Survey:

"Experience in recent years has indicated that any increase in the guaranteed purchase price of cocoa has always been accompanied by a rise in the prices of locally produced foodstuffs which form the staple diet of the country as a whole; while additional purchasing power in the hands of cocoa farmers gives rise to increases in the prices of imported goods until supply again comes into line." 1/

Vigorous internal growth, especially in the Rhodesian Federation, has accompanied the export boom. The Federation national income rose from £147 million in 1950 to £265 million in 1954. This 80 per cent increase in terms of current prices represents, when adjusted roughly for price changes, a real rate of growth in the neighborhood of 9 per cent per annum. Simultaneously, the population also expanded rapidly.

The rate of internal growth has been less dramatic in the Gold Coast. The rate of development expenditures has been accelerating, but there are no statistical measures of the rate of economic development. In these programs, public services and social services have thus far received priority. These expenditures, largely on a

1/ Gold Coast Economic Survey, 1954 (Accra: 1955), p. 18.

Table 1.

Rhodesian Federation and Gold Coast: Sources of inflationary pressure

1950 to 1954

(In millions of British pounds, except where noted)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
I. Rhodesian Federation					
1. Price of copper - low and to high for year <u>a/</u>	18.50 24.50	24.50	24.50	24.50 to 30.90	29.75 to 30.00
2. Exports:					
Copper	41.5	61.4	70.3	76.9	88.5
All other	<u>49.2</u>	<u>53.5</u>	<u>58.0</u>	<u>59.4</u>	<u>66.0</u>
Total exports	90.7	114.9	128.3	136.3	154.5
3. Net national income	147.4	175.9	206.9	235.7	265.1
4. Total money supply	83.5	87.6	91.7	92.2	106.3
II. Gold Coast					
1. Price of cocoa - low and to high for year <u>b/</u>	22.32 43.58	28.56 to 38.38	30.06 to 38.38	29.59 to 47.35	48.30 to 71.45
2. Exports:					
Cocoa	54.6	60.3	52.5	56.1	84.6
All other	<u>22.8</u>	<u>31.7</u>	<u>33.9</u>	<u>33.8</u>	<u>30.1</u>
Total exports	77.4	92.0	86.4	89.9	114.7
3. Total money supply	47.6	45.6	52.3	52.7	55.8

Sources. For price statistics, see footnote. All other statistics, Monthly Digest of Statistics for Rhodesian Federation and Digest of Statistics for Gold Coast.

a/ Electrolytic copper at New York from American Bureau of Metal Statistics.

b/ Cocoa beans, Accra, in New York market.

non-income producing variety, have sought to improve transport facilities and supplies of water and electricity, in contrast to the income-earning expenditures in the Federation. Estimates of gross fixed capital formation show rises from £15 million in 1950 to £28 million in 1954, but these totals are small, amounting to only one-third annual government revenue.

Domestic growth and enlarged export earnings have contributed to a larger money supply. Between 1951 and 1954, the money supply rose in the Rhodesias from £88 million to £106 million and in the Gold Coast from £46 million to £56 million (see Table 1).

Price stability and the stabilization programs

Despite the open character of their economies, these African countries have achieved a marked degree of economic stability since 1951. On an index basis, the rise in domestic prices has been less than comparable price movements in the United Kingdom, New Zealand, and Australia. Between 1951 and 1954, the cost of living rose by 12-13 per cent in the Rhodesias and actually declined in the Gold Coast (see Table 2). For the Gold Coast, the index of retail prices in Accra and the index of market prices for locally produced food-stuffs were lower at the end of 1954 than in December 1951. Despite the substantial price pressures experienced in both countries during the post-Korean inflation in 1950, the price rises between 1950 and 1954 were also below comparable increases for other British countries.

In their stabilization efforts, the Rhodesian Federation and the Gold Coast have tried to mobilize export earnings to finance investment expenditures. Although their techniques differed in certain details, both countries have been able to draw upon overseas earnings to finance internal development. The governments have earmarked current tax receipts for economic development, and rising private and corporate savings have contributed to stabilization in the Federation.

Growth of domestic savings in the Federation

The expansion in domestic savings, both private and governmental, has been a dominant economic trend within the Rhodesian Federation since 1950. Gross savings grew from £38 million in 1950 to £73 million in 1954 (see Table 3). As a result, internal savings financed 84 per cent of gross investment in 1954 compared with 50 per cent in 1951 when overseas borrowing was at a post-war peak. Between 1950 and 1954, government savings grew by £13 million and individual and corporate savings by £23 million.

Table 2

Consumer Price Indexes: Comparative increases,
1950 to 1954 and 1951 to 1954

(In per cent)

	From 1950 to 1954	From 1951 to 1954
Southern Rhodesia	19	12
Northern Rhodesia	19	13
Gold Coast:		
Retail prices in Accra	14	-3
Market prices of local foodstuffs	27	-1
United Kingdom	25	14
South Africa	23	15
New Zealand	32	18
Australia	50	24
Kenya	28	19
Tanganyika	29	17
Uganda	n.a.	17

Source. Monthly Bulletin of Statistics, United Nations, except for
Gold Coast where indexes shown in Gold Coast Digest of Statistics
are used.

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Table 3

Rhodesian Federation: Financing of
gross investment and budget surplus

(In millions of British pounds)

	1950	1951	1952	1953	1954
I. Financing gross investment:					
1. Gross domestic savings:					
Personal savings	10.4	5.7	8.6	10.8	15.4
Government surpluses	8.3	11.4	22.2	23.0	21.1
Undistributed profits	7.3	17.7	10.2	12.2	20.4
Depreciation	<u>11.8</u>	<u>13.6</u>	<u>16.3</u>	<u>15.3</u>	<u>16.3</u>
Total domestic savings	37.8	48.4	57.3	61.3	73.2
2. Net borrowing abroad	<u>28.2</u>	<u>49.3</u>	<u>42.4</u>	<u>26.5</u>	<u>16.1</u>
3. Total gross investment	65.0	97.3	97.7	85.9	87.3
II. Consolidated government accounts ^{a/} :					
1. Revenue:					
Corporate direct taxes	14.7	18.7	28.6	32.3	32.0
Other revenue	<u>20.0</u>	<u>23.9</u>	<u>28.3</u>	<u>30.2</u>	<u>32.0</u>
Total revenue	34.7	42.6	56.9	62.5	64.0
2. Total expenditures	<u>26.4</u>	<u>31.2</u>	<u>34.7</u>	<u>39.5</u>	<u>42.9</u>
3. Current surplus	8.3	11.4	22.2	23.0	21.1

Source: "Statistical Review of the Federation in 1954", Monthly Digest of Statistics, supplement, July 1955.

a/ Consolidated statements of revenue and expenditure of the Federal and Territorial governments, municipalities, other local authorities and Native authorities.

This remarkable growth in internal savings has been directly -- and in large measure fortuitously -- related to the copper boom. Government current-revenue surpluses and undistributed profits of the copper companies have been the principal sources (see Table 3). With corporate tax payments comprising about half total tax receipts, the copper companies are major direct contributors to Treasury revenue: between 1950 and 1954, the rise in corporate tax payments of £17 million compares with the £12 million expansion in all other tax receipts.

As a supplement to private and corporate savings, the Federation authorities have chosen to devote a substantial part of current tax receipts to finance economic development; this policy has been an integral part of their stabilization effort. In 1954, for example, about 33 per cent of current revenue was devoted to development, compared with 37 per cent in 1953 and 39 per cent in 1952. Government savings on this scale represent a major contribution to non-inflationary development financing.

Government savings in the Gold Coast

In contrast with the Rhodesian Federation, the Gold Coast authorities have relied entirely upon government savings to finance development. The Treasury has used its current-revenue surplus, derived principally from the cocoa-export duty, as the cornerstone of the country's stabilization program. The rudimentary state of the Gold Coast's financial structure and the meager volume of private monetary savings made it necessary for the Government to provide developmental funds.

In important respects, the problem of internal stabilization is more complex for the Gold Coast than for the Federation. Export supplies are produced not by a few mining companies but by perhaps 150,000 to 200,000 individual cocoa farmers who are not accustomed to pay income taxes or to invest directly in government bonds. Furthermore, the copper companies used their undistributed profits to finance projects which are important to Rhodesia's economic growth, whether new mines are being opened or housing is being built for the labor force. In the Gold Coast, on the other hand, the developmental expenditures which cocoa farmers might make out of any retained earnings would probably include projects of a lower comparative priority in its development program.

The Gold Coast's stabilization program grew out of marketing arrangements set up originally to cope with special wartime problems and continued into the postwar period to stabilize the incomes of cocoa farmers. During the war and early postwar years, the Cocoa Marketing Board paid local producers substantially less than the world price in order to accumulate a reserve fund for stabilization purposes. In the first five postwar years, for example, the

Marketing Board paid out to local farmers only 60 per cent of its export earnings. This policy had the incidental economic effect of fully sterilizing the undistributed portion of the Board's earnings: the reserve funds were invested in the London market, and neither domestic incomes nor the money supply were affected by enlarged overseas earnings.

During 1951, there were major changes in Gold Coast economic policies. The Cocoa Marketing Board came under increasing pressures as the stabilization reserve grew; criticism was also stimulated by the Board's conservative distribution policy. ^{1/} At the same time, there was increasing concern over the country's need for economic development, in part a reflection of accelerating political developments. In September 1951, the country's First Development Plan was approved. In December, under the Cocoa Duty and Development Fund Ordinance, the cocoa export tax was sharply raised in order to finance these development expenditures. Most of the surplus export earnings which had formerly accrued to the Cocoa Marketing Board became part of the Treasury's tax receipts. The Government justified this change in practice on the grounds that

"a proportion of the country's export surplus should be set aside to ensure that adequate funds are available to finance the Development Plan, in addition to normal contributions to revenue." ^{2/}

The Gold Coast authorities have used the export tax to limit cocoa producers incomes and to provide government savings to finance economic growth. Current tax receipts increased from £20 million in 1950-51 to £74 million in 1954-55, with cocoa taxes providing £41 million of the expansion (see Table 4). Events in 1954-55 illustrate how the cocoa duty has been used for stabilization purposes. After the fiscal year had commenced and after the cocoa marketing season was underway, the tax on cocoa exports was raised because of booming prices in world markets: the graduated rate of the export levy (on returns above a base price) was pushed up and the revised tax produced £46 million in revenue compared with the original budget estimate of £15 million.

^{1/} For example, the sharp reduction in producer price announced in 1949, after the Board's reserves had been very slightly reduced, is criticised in P. T. Bauer and F. W. Paish, "The Reduction of Fluctuations in the Incomes of Primary Producers," Economic Journal, December 1952, p. 760. This article presents a major criticism of the activities of the various West African Marketing Boards.

^{2/} Economic Survey, 1952, (Accra: 1953), pp. 13-14.

Table 4

Gold Coast: Central government finances and investment expenditures,
April to March

(In millions of British pounds)

	1950-51	1951-52	1952-53	1953-54	1954-55		1955-56
					Esti- mate	Out- turn	Esti- mate
I. Government finances:							
1. Current receipts:							
Cocoa duty	4.5	10.8	16.4	18.8	15.0	45.7	35.2
Other receipts	<u>15.6</u>	<u>18.9</u>	<u>24.0</u>	<u>27.5</u>	<u>27.3</u>	<u>28.7</u>	<u>28.2</u>
Total receipts	20.1	29.7	40.4	46.3	42.3	74.4	63.4
2. Current expenditures <u>a/</u>	11.6	14.2	21.3	24.8	29.3	30.6	32.2
3. Current surplus <u>b/</u> :							
Reported surplus	8.4	8.1	5.1	21.2	12.7	42.2	29.4
To Development Funds	<u>.1</u>	<u>7.4</u>	<u>14.0</u>	<u>.3</u>	<u>.3</u>	<u>1.6</u>	<u>1.8</u>
Total surplus	8.5	15.5	19.1	21.5	13.0	43.8	31.2
II. Financing government investment:							
Revenue surplus	----	<u>c/22.8</u>	<u>c/14.2</u>	21.2	----	42.2	29.4
Depreciation funds	----	.0	.0	.1	----	.1	.2
Loans from Cocoa Marketing Board	----	.0	2.2	3.9	----	2.4	3.0
Local loans	----	.0	.0	.5	----	2.5	----
Total investment	----	22.8	16.4	25.7	----	47.3	32.6

Source: Economic Survey for 1953 and 1954.

a/ This category includes current and extraordinary payments, including subsidies and minor capital items.

b/ This category includes current revenue surplus as shown in the official accounts together with appropriations from revenue to the various developmental funds.

c/ These figures are not strictly comparable with other data, perhaps because they include receipts from the cocoa levy and other receipts earmarked for development purposes which are not put into the current revenue accounts.

With growing tax receipts, the actual Treasury surplus increased from £8.5 million in 1950-51 to about £44 million in 1954-55. These funds provided about 82 per cent of investment finance in 1953-54, (see Table 4), and are expected to finance about 93 per cent of investment expenditures during 1954-55 and 1955-56.

Limited commercial banking in the Gold Coast

The rudimentary financial structure in the Gold Coast, marked by meager supplies of private monetary savings and of local bank credit, has forced the authorities to depend upon government savings to finance investment expenditures. The undeveloped character of Gold Coast commercial banking is in marked contrast with the modern deposit-banking system (largely among the European population) in the Rhodesian Federation. In 1954, for example, deposits comprised about 86 per cent of the Rhodesian money supply compared with 35 per cent in the Gold Coast (see Table 5). Similarly, domestic loans and security purchases comprised nearly 40 per cent of the Rhodesian money supply compared with 8 per cent in the Gold Coast.

The development of the banking habit in the Gold Coast has been hampered by the preoccupation of the two British commercial banks in financing foreign trade rather than in making local loans. In particular, the remittance charges on both external and internal transfers, which the banks rely upon for the bulk of their income, has shifted much of the financing of Gold Coast exports and imports outside the country. The "general policy of all exporters and importers is to minimize the corresponding movement of funds into and out of the colony." ^{1/} Trading firms try to pay for imports with sterling export proceeds and the foreign-owned industrial enterprises finance their purchases through London. Foreign firms transfer deposits to the Gold Coast mainly to obtain local notes to meet local expenses.

Because the larger firms borrow outside the country, Gold Coast banking statistics give a misleading picture of the economic importance of banking. ^{2/} The figures show that Gold Coast banks are remarkably liquid: at the end of 1954, for example, liquid assets equalled 97 per cent of demand deposits and 77 per cent of all deposits (see Table 6). But this liquidity means only that the financing of the Gold Coast's trade is done in London, and not in Accra. In this respect, the Gold Coast is like British branch banking in a residential suburb where the local branch -- because the local demand for loans is limited -- accumulates excess funds which are transferred to, and loaned out by, more active branches. However, the distinctive difference in the case of the Gold Coast is that borrowing outside the country is encouraged by special transfer charges.

^{1/} Ida Greaves, Colonial Monetary Conditions, Colonial Research Studies No. 10 (H.M.S.O., London: 1953), p. 58.

^{2/} See, for example, the Economic Development of Nigeria, Report of an International Bank Mission (Johns Hopkins Press, Baltimore: 1953), esp. pp. 153-154.

Table 5

Rhodesian Federation and the Gold Coast:
Selected banking statistics, Dec. 31

(In millions of British pounds)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>
I. Central African Federation:					
1. Notes and coin <u>a/</u>	9.6	10.9	12.0	13.2	14.5
2. Bank deposits	<u>b/73.9</u>	<u>76.7</u>	<u>79.7</u>	<u>79.0</u>	<u>91.8</u>
Total money supply	83.5	87.6	91.7	92.2	106.3
3. Assets of commercial banks:					
Balances abroad	<u>c/35.0</u>	38.1	36.9	47.5	
Loans and advances	<u>c/15.4</u>	23.9	22.2	28.4	
Government securities	<u>c/ 6.0</u>	9.6	11.8	13.5	
II. Gold Coast:					
1. Notes and coin <u>a/</u>	33.8	33.8	37.6	35.9	36.0
2. Bank deposits	<u>13.8</u>	<u>11.8</u>	<u>14.7</u>	<u>16.8</u>	<u>19.8</u>
Total money supply	47.6	45.6	52.3	52.7	55.8
3. Assets of commercial banks:					
Balances abroad	3.0	3.0	6.8	9.3	9.0
Loans and advances	5.3	4.2	4.6	3.9	4.2

Source: Gold Coast, Digest of Statistics (monthly); Rhodesian Federation, Monthly Digest of Statistics

a/ Notes and coin in hands of public as of March 31 of following year.

b/ Estimated from statistics in Newlyn and Rowan, Money and Banking in British Colonial Africa (Oxford: 1954), Chapter IV.

c/ Average of four quarters ending June 30, 1951 from Newlyn and Rowan, op cit., p. 92.

Table 6

Gold Coast: Balance sheet of commercial banks,
December 1954

(In millions of British pounds)

<u>Assets</u>		<u>Liabilities</u>	
1. Liquid assets:		1. Demand deposits	15.4
Currency	4.9	2. Other deposits:	
Balances abroad	9.0	Savings deposits	3.0
Local bank balances	<u>1.1</u>	Time deposits	<u>1.4</u>
Total liquid assets	15.0	Total	4.4
2. Other assets:		3. Other liabilities	4.2
Loans	4.2	4. Total liabilities	24.0
Other assets	<u>4.8</u>		
Total	9.0		
3. Total assets	24.0		

Source: Digest of Statistics (monthly)

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The practice of borrowing abroad has retarded the development of banking in the country. To some extent, local traders go so far as to avoid the banking system altogether; for example, they offer "local cash to an exporter who needs it in exchange for his cheque on a United Kingdom account." ^{1/} The banks' remittance charges also retard the use of banking facilities for domestic transfers. ^{2/} Furthermore, in 1948 the advances of the United Africa Company to retailers and produce buyers exceeded the total advances of the two British banks in Nigeria and the Gold Coast. ^{3/}

Replacing the Currency Boards

The central banking institutions to be established will replace Currency Boards which have been responsible for the local note issue in both areas under review. In general, the Currency Board system has been subject to two principal criticisms: (a) the colony's foreign-exchange resources are unnecessarily locked up; and (b) the volume of currency is mechanically related to the balance of payments. ^{4/} In their recent experience, however, the Rhodesian Federation and the Gold Coast have not found excessive foreign exchange reserves tied up nor have they allowed the balance of payments to determine the domestic money supply in a mechanical fashion.

The characteristic feature of the Currency Board system is the mechanical nature of its operations: the Board automatically issues local notes against sterling in London and supplies sterling when local notes are surrendered. The note issue is always fully covered by sterling balances in London, and an inflexible link is

^{1/} Greaves, op. cit., p. 59.

^{2/} Dr. Greaves outspokenly criticizes these charges (see Ibid, p. 59). Sir Cecil Trevor was also highly critical: "Even though appreciable reductions have been made in recent years, I was impressed by the high rates charged by the banks for internal remittances, especially between centers at which they enjoy free transfers through the West African Currency Board and where no physical transfers of currency are involved. ... I consider that, for the country's economy to develop on the right lines, it is essential that internal remittances should be available freely at cheap rates." (Report on Banking Conditions in the Gold Coast and the Question of setting Up a National Bank, Government Printing Department, Accra, 1951, para. 123).

^{3/} W. T. Newlyn and D. C. Rowan, Money and Banking in British Colonial Africa, (Oxford: 1954), p. 138.

^{4/} An excellent discussion of the Currency Board system is found in "A Fiduciary Issue of West African Currency," Statistical and Economic Review, United Africa Company, September 1955, pp. 1-21.

established between the local note and the pound; the colony's financial structure becomes an integral part of the monetary system of the United Kingdom. In the words of Dr. Greaves:

"No colony has a Central Bank or any other mechanism for regulating money and credit. Commercial banks obtain the cash they need from the local currency authority, and credit is a matter for their own discretion." 1/

Yet the balances maintained by the Rhodesian and the Gold Coast authorities as note cover under the Currency Board system have not been excessive. In the first place, the note issue supplied by the Currency Board is exactly equivalent in all respects to the note of the Bank of England. If Bank of England notes were used in circulation in place of the Board's notes -- a change in practice which would in no way improve the quality or the transferability of the local note -- these London balances would be wiped out. 2/ To be able to obtain a reliable note issue and still be able to earn foreign income on a country's local note issue is not an unattractive proposition.

But, in the second place, the holdings of the Currency Boards are not out of line with conventional practices in other countries. These holdings represented for the Rhodesian Federation only 2 months of imports and for the Gold Coast about 6 months of imports. In terms of money supply, the balances of the Central African Currency Fund (£20 million on March 31, 1955) represented only 19 per cent of total Rhodesian notes and deposits and those of the West African Currency Board accruing to the Gold Coast (estimated at about £34 million on September 30, 1954) represented about 61 per cent of Gold Coast money supply 3/ (see Table 5).

1/ Greaves, op. cit., p. 27.

2/ Foreign notes have in the past circulated as domestic currency in the Philippine Islands and Cuba and continue to circulate in Liberia and Panama. From Britain's viewpoint, the advantage of the Currency Board arrangement would seem to be the convenience to British merchants and others to deal without distinction in either local notes or sterling.

3/ The Currency Boards hold 100-per cent sterling cover against the note circulation but no cover against local deposits; hence, the larger the volume of deposits, the smaller the proportion of these sterling balances.

Though it is true that the volume of currency is mechanically related to the balance of payments (the second major criticism of the Currency Board system), it does not follow that there is no role for monetary flexibility in colonial areas. The Currency Boards are responsible only for the note issue. Just as the Bank of England's note-issue monopoly in the London area did not prevent the emergence of joint-stock banking in the 1830's, so the rigidity of the local Currency Board in the matter of note issue does not limit the growth of deposit banking. Because bank lending was a major factor in the money supply, for example, Southern Rhodesia found it necessary -- despite its Currency Board -- to introduce domestic credit restraint in early 1952 quite independent of the restrictions being applied in Britain. This restraint was imposed to check a post-Korean import drain, financed substantially by the rise in bank advances from £21.3 million at the end of 1950 to £34.1 million in 1951, which had reduced the overseas balances of the commercial banks to a record low of £3 million by March 1952. This loss in foreign balances prompted the Government to issue a directive to the banks to curtail credit, particularly for non-essential imports; the Federal Prime Minister later stated that the banks themselves had requested this action. ^{1/} The commercial banks had responded to a depletion of reserves just as a central bank would have acted.

It is in colonial areas such as the Gold Coast, where the banking habit has not developed, that monetary flexibility has little scope. In such areas, the local authorities must depend upon budgetary (and related official) policies to offset balance-of-payments fluctuations. The need for government savings argues against currency appreciation as an anti-inflationary policy, assuming such an adjustment were possible: the higher exchange rate, which would relieve pressures on local prices, would also reduce tax revenue from export levies. ^{2/} Thus, it is not the Currency Board but the existence of institutional factors limiting the volume of bank credit and of private savings, which limits the role of monetary policy. In the

^{1/} H. W. Woodruff, The Federation of Rhodesia and Nyasaland, (H.M.S.O., London: 1955) p. 21.

^{2/} For a contrary view, see: "The expansion of local circulation in this period is an interesting demonstration of the relative ineffectiveness of cautious Nigerian budgetary policies to prevent the transmission of general sterling area inflation to Nigeria when the currency is tied directly to sterling. Short of an appreciation of the West African pound, which would have been essentially inconsistent with the Currency Board system, there was no way in which the local administration could have avoided the price inflation which has occurred." The Economic Development of Nigeria, Report of an International Bank Mission (Johns Hopkins Press, Baltimore: 1953) p. 151.

Gold Coast, deposits are only one-third of the money supply, bank loans are only minor in volume, and private savings are not made available for domestic finance through organized capital markets or through a developed banking habit: under these conditions, the flexibility of monetary policy is restricted by the rudimentary character of the financial structure, regardless of how the note issue is handled.

Central banking and economic stabilization

The substitution of a central banking institution for a Currency Board probably will not materially extend the use of monetary techniques to reconcile economic stabilization and development financing in the Rhodesian Federation or the Gold Coast. The scope of monetary policy even with a central bank will continue to be limited by institutional backwardness. Furthermore, because of local conditions, the authorities will be restricted to those stabilization policies which have been successful in the recent past: only increased private savings (and in the Gold Coast the growth of commercial bank credit for local enterprise) can reduce the dependence of the authorities upon government savings as the basis of economic policy. Both areas will probably have to continue to rely upon revenue surpluses, obtained principally from export earnings, to finance internal growth. 1/

It is in the institutional field that the central banks can be expected to introduce important changes. In Rhodesia, the transfer of commercial bank reserves to comply with local reserve requirements should aid the expansion in the short-term money market. 2/

1/ In the Gold Coast, the Government's cocoa price policy has become a matter of increasingly grave political controversy. For example, the New York Times reports: "A controversy over cocoa prices has brought the Gold Coast its first major internal crisis under African Government." (December 30, 1954, p. 5). The Government's policy is defended in Economic Survey, 1954, pp. 17-20.

2/ The active demand for Treasury bills, particularly by mining companies with substantial sums for temporary investment, has marked the beginnings of a short-term money market. In October 1955, the Federal Treasury authorized the various statutory commissions (the Grain Marketing Board, the Cotton Industries Board, the Dairy Marketing Board, the Cold Storage Commission, and the Electricity Supply Commission) to sell three-month bills identical in terms to Treasury bills. The Grain Marketing Board was able to raise about £2 million for three months at 3 per cent at a time when the British Treasury was borrowing in London at over 4 per cent on Treasury bills.

The central bank should also broaden the market for government securities. 1/

In the Gold Coast, important changes in the financial structure are already in process, 2/ but the over-riding uncertainty remains the future of deposit banking. The lack of African banking is the principal institutional gap. Direct British lending to the African sector has always been limited. Legal and sociological peculiarities of African tribal life have contributed to this deficiency: in particular, acceptable bankable collateral is difficult to obtain in the absence of individual land ownership, and family and tribal customs definitely discourage individual savings at banks. Nonetheless, the scale of remittance charges on local and overseas transfers and the rigid adherence by the British banks to commercial-banking principles more appropriate to business conditions in Britain than to those in the Gold Coast have retarded the growth of the banking habit.

1/ At present, the chief holders of government securities are the insurance companies, pension funds, and certain official sinking funds; private investor holdings have been limited by the high returns on mortgages, the tradition of prospecting speculation, and the high returns from stocks listed on the local (Salisbury and Bulawayo) and Johannesburg Stock Exchanges.

2/ The local capital market in the Gold Coast is quite meager but the Bank of the Gold Coast is already trying to encourage its development. Prior to 1954, the Cocoa Marketing Board was the only subscriber to government bonds, but two local issues have been made since early 1954: a £500,000 issue at 4 per cent and a £1 million issue at 3-1/2 per cent. In his budget speech on February 22, 1955, the Finance Minister stated that 424 individuals held £129,940 of bonds and that 314 Africans held £78,990. Two premium bonds in £5 denominations with a lottery feature have recently been issued. To broaden the capital market, the Bank of the Gold Coast has now been empowered to buy and sell Treasury bonds at prices which vary according to demand and supply and yet can give a repurchase guarantee at not less than purchase price. A 90-day Treasury bill was first issued on July 15, 1954 to borrow temporarily-idle commercial funds. A mortgage-banking program, introduced in 1954, provided funds to the Bank to assist commercial and industrial firms to obtain capital by means of fully-secured loans with maturity up to three years. A Guarantee Corporation, with a £300,000 authorized capital, is intended to assist the growth of small African businesses by providing short-term credit facilities (i.e. guarantees, loans, and discounts to African traders) with government support. (See Economic Survey, 1954, pp. 16-17 and 63).

The African population lacks experience in credit-granting and -- in some ways a greater obstacle -- in credit-using. The history of African banking in Nigeria illustrates some of the dangers of introducing bank credit in a community with only a limited credit-giving and credit-using history. ^{1/} The prominent roles of the Government and the cooperatives as intermediaries between the suppliers and users of credit represent attempts to widen African use of credit in the Gold Coast.

On the favorable side, the external finances of the Gold Coast are strong: its external debt is only £8 million compared with sterling balances of £167 million (see Table 7). The fact that its sterling balances are four times as large as its present currency reserves may help to explain why the authorities appear to have decided not to introduce a fiduciary issue following Britain's change in fundamental policy in December 1954. In response to criticism of the 100-per cent note cover under the Currency Board system, the United Kingdom abandoned this principle to permit colonies to "use locally issued colonial government securities as note cover to the extent of 20 or 30 per cent of their note circulation." ^{2/} The expectation that a fiduciary issue would be introduced in the West African colonies prompted the United Africa Company periodical to examine the question with great care. ^{3/} However, a shortage of sterling balances is not likely to become an obstacle to the internal expansion of the money supply in the Gold Coast in the near future. In any case, the Finance Minister stated in the Legislative Assembly on April 5, 1955 that:

"The unit of the new currency will be exchanged and maintained as now at a value equivalent to that of the pound sterling, and will be fully backed by sterling, for the Government is firmly convinced that for many years to come the interests of this country will best be served by a close link with sterling."

^{1/} An excellent history of African banking in Nigeria is found in Newlyn and Rowan, op. cit., Chapter V.

^{2/} See International News Survey, January 14, 1955, which reproduces British press reports. The change in practice would not alter the automatic redemption of local notes but is designed to stimulate subscriptions to local government loans and to lay the basis of local colonial money markets. The problem of the "idle" balances locked up in currency funds is discussed by Ida Greaves, The Colonial Sterling Balances, Essays in International Finance (Princeton: 1954), esp. pp. 13 and 14.

^{3/} Statistical and Economic Review, No. 16, September 1955, pp. 1-21. The article concludes that confidence would not be shaken "provided the currency arrangements of the future are based on the sound past practices of the Currency Board." (p. 21)

Table 7Gold Coast: Sterling balances by holders

(In millions of pounds)

Date	Cocoa Marketing Board	Government	Other official institutions	Banks	Estimated currency reserves	Total balances
Dec. 31, 1950	41.4	18.6	4.7	3.8	35.0	103.5
June 30, 1952	68.3	36.0	4.4	1.9	30.5	141.1
March 31, 1953	58.5	41.3	5.8	10.2	33.2	149.0
March 31, 1954	63.5	49.4	8.6	13.3	32.6	167.4

Source: Gold Coast, Economic Survey for 1952, 1953 and 1954.

In the Gold Coast as in the Rhodesian Federation, therefore, the financial changes presently being introduced are purely institutional in character; but the policies rather than the institutional structure are vital to economic stabilization. The two principal policies in the financial field -- the conservative financing of development expenditures out of revenue derived from export earnings and the provision of a reliable note issue -- need not be affected by the institutional changes thus far proposed. This continuity in policies should make possible a continuation of the tradition of responsible financial management which has been characteristic of both these African areas under British rule.