CURRENCY AND BANKING DEVELOPMENTS IN CERTAIN COMMONWEALTH COUNTRIES DURING THE PAST TEN YEARS

The development of currency policy and practice in Commonwealth countries provides a wide field for study. This article can only be a brief review; but to keep even this within bounds, it is limited in time to the past ten years; and in area to those countries which have achieved independence within the period together with certain territories or groupings of territories still approaching full self-government.

The history of currency systems within the Commonwealth shows a mixture of improvisation, natural growth and conscious policy. In the earlier years the currency systems grew from the initiative of traders, or of the people generally, in finding a medium of exchange for their immediate needs. Government action was not much in evidence until the present century. The many examples include the transfer of the Straits Settlements currency from a silver to a gold basis in 1906; the withdrawal of U.K. coinage at U.K. government expense from certain African territories and its replacement by standard local coinage; the gradual creation of sterling currency boards as they are now known; the discouragement of local tokens and other primitive means of payment; and the elimination of silver as the monetary standard in East Africa and in other territories.

To give perspective, the evolution of currency policy must be seen against the background of the economic conditions prevailing in the territories concerned. These conditions altered relatively little in the inter-war years but the post-war era, and particularly the last decade, has witnessed some fundamental and very rapid changes in the economies of the Commonwealth countries[a] considered in this article.

These countries differ widely in their stage of development, their degree of prosperity and their material resources. In the inter-war and immediate post-war years most of them, however, shared a common pattern of economic structure in which the export of raw materials grown or mined in the territory was set against the import of manufactured goods. Manufacturing industry was confined generally to the processing of these raw materials for export. A large part of the population carried on subsistence farming and had few cash needs: in some cases export crops were produced by such farmers, in others these crops were grown on plantations.

Money supply was at a low level; in the early 1950's it ranged, per capita, from roughly £3 in West Africa to £17 in the Federation of Malaya, in contrast to about £120 in the United Kingdom. Further, banking being relatively undeveloped, except in a few territories subject to special influences, currency was a very much more important element in total money supply than is the case in more advanced economies.

In most cases the development of the money economy was slow and although savings institutions existed money savings were at a low level. In these circumstances the banks tended to concentrate on providing finance in the government sector and in the finance of foreign trade (including the provision of local crop financing). There were few facilities available locally for the short-term employment of their funds in fully liquid form and this made it essential for them to use the London money market for this purpose. At the same time the capital needs of the public sector were met partly by grants and loans from the U.K. Government and partly by borrowing on the London capital market: those of the private sector were largely covered by investment capital from abroad.

In these circumstances the opportunities for monetary management by positive action within the territories were limited. What was of importance was the existence of a well

(a) British Commonwealth territories in East, Central and West Africa, Malaya and the West Indies.

backed local currency automatically convertible into sterling at a fixed rate. It is with the changes made in this system under the impact of recent political and economic changes that this article is mainly concerned.

Origin and nature of currency boards

In devising currency systems for these territories the authorities were guided by severely practical considerations, drawing particularly on the experience of the business community. Thus the preference shown by traders and bankers before 1914 for the Bill on London as a method of laying down or obtaining value for local means of payment, rather than by the shipment of bullion or specie, ultimately became formalised in the creation of sterling currency boards of which the West African Currency Board, set up in 1912-13, was characteristic and provided a pattern for many currency authorities established subsequently.

Currency boards dominated the currency field of the colonial territories between the two wars. Whatever defects or weaknesses could be attributed to them, they undoubtedly proved of great convenience and benefit to the territories which they served and they represented a considerable advance in currency techniques. They were either direct creations of the Secretary of State for the Colonies or were set up under his authority by colonial governments. In the former event, they were domiciled in and operated from London, their currencies being given legal status by local legislation in each of the territories concerned. There were two instances of this, namely the Currency Boards for East and West Africa, each serving several territories. These boards had representatives locally but they also employed banks as agents for the local movement and safe custody of currency. In the years up to 1939, the arrangement appeared to create no difficulties. London management was in a good position to provide expert investment advice which has, for example, been reflected in the liquidity and financial strength of the East and West African Currency Boards. But nowadays, management from an overseas centre may well appear somewhat remote, though similar arrangements still persist in the currency systems of certain newly independent countries (formerly French colonies) outside the Commonwealth.

The Malayan Currency Board was an example of a board serving several territories yet locally domiciled, the agreement again being enforced by separate local legislation. Most other currency boards served only one territory and were constituted directly under local ordinances. Although there were variations in both structure and procedures to suit particular conditions the patterns were broadly comparable. Banks were normally employed as agents and the boards' management devolved on Financial Secretaries or other government officials. The day-to-day business was simple and routine in character but the system provided satisfactory currency conditions with a minimum of effort and expense.

In essence all the boards were passive instruments of the public demand for currency. They had a statutory obligation to issue and redeem their currency on demand against sterling at a fixed rate of exchange, subject only to a commission charge. The maximum charge was fixed by law, usually $\frac{3}{4}$% for both issues (purchases of sterling by the board) and redemptions (sales of sterling by the board). Normally the boards operated at somewhat finer rates, which reflected originally, in some territories, the cost of shipping specie in the days when U.K. coinage was legal tender. Like central banks the boards did not normally deal with the general public; but unlike them they were not authorised to intervene actively in the market. To provide a safeguard against excessive remittance charges by the commercial banks the currency boards were required to issue and redeem currency at their stated charges on demand by anyone, subject only to a minimum limit of amount. Traditionally the issue and redemption rates of the boards acted as ' long stops ' at either end of the banks' rates to the general public, the banks operating either at these rates, or, where an active market in exchange existed, within them. Only exceptionally, as occasionally in Singapore, did the banks' rates stray fractionally outside the limits set by the boards and then usually only when there was a multiplicity of small transactions in one direction.

The boards were required to maintain full cover in sterling for their currency liabilities and to accumulate an additional reserve of, in some cases, as much as 10%. Subject to this they could distribute surplus income (or even capital assets) to the governments of the territories they served. In time their income became regular and substantial because, subject to holding a proportion of their assets in liquid form, the boards could invest the remainder in approved sterling securities (normally defined as those issued or guaranteed by the governments of the United Kingdom or other Commonwealth countries).

The boards' obligation to redeem their currency and their manifest ability to do so assured traders and the general public of stable monetary conditions which proved of great benefit to trade and investment. Populations hitherto accustomed to accepting only full bodied money or some external currency came to accept board currencies, which often circulated widely outside the currency areas themselves. The system provided the banks with access to the facilities of the London money market without problems of exchange cover; and similarly it facilitated the short-term movement of funds from London to the countries concerned.

Currency boards since 1945

The 1939-45 war and the immediate post-war years caused profound changes in the political and economic circumstances surrounding currency policy in the Commonwealth. There was not only further advance towards self-government but a faster tempo of development and a greater desire for change and experiment. Moreover, the war and later the Korean boom in commodities stimulated a heavy expansion of currency circulation and of sterling reserves. By 1952 the increase in currency had gone far beyond that which could be attributed to the rise in prices during that time or to higher production. The extent of this expansion is illustrated by the following table of currency circulation of some of these currency boards.

Millions	end-financial years:				
	1939	1946	1950	1952	1957
W. African Currency Board (£WA) ...	11·7	33·8	51·5	70·8	94·8
E. African Currency Board (£EA) ...	6·5	24·5	29·6	37·8	52·5
Malayan Currency Board (Mal.$) ...	144	435	681	812	987

In addition many of the countries added to their sterling savings in the form of government funds, marketing board assets and other accumulations.

Turning to developments in the past ten years it may be convenient to consider separately two broad lines of evolution:

first, the enlargement of the powers and duties of currency boards; and

secondly, the creation and elaboration of central banking institutions.

The two lines are of course not fully separate. In some respects they run side by side or overlap.

Objections to the old-style currency board have concentrated largely on two aspects of its operation: an excessive locking-up of foreign exchange in currency reserves; and the inability of the currency authority, as a passive instrument, to exert positive influence on credit conditions, with the consequent enforcement of painful deflationary correctives in times of depression. In the greatly changed conditions of to-day some departure from full external backing for the currency may be appropriate, even in small territories; but its extent must depend heavily, in an economy where variations in internal demand can be fully reflected in the balance of payments position, on the degree to which any fiduciary assets can be made truly liquid. Again, although the currency board mechanism reacts automatically on the currency circulation (and hence on the total money supply), this fact has been tempered in most countries by such factors as the power of the banks to cushion the inflow and outflow of funds and the use of government and marketing board funds. However, in post-war years, the ability and willingness of the larger currency board areas to submit to severe deflation has not had to be put to the test.

Enlargement of the powers of currency boards

Post-war demands for development finance, for the improvement of local monetary machinery and for the mobilisation of past savings invested abroad, brought an important change of policy in the currency board field. In 1954 all the then colonial territories were invited, as an act of policy, to authorise their currency boards to make limited fiduciary issues of currency against local securities of government. The London-based boards were encouraged to acquire similar rights. A fiduciary issue is, in this context, that part of a currency issue for which the backing consists solely of assets denominated in the same currency.

These powers were not all adopted simultaneously but, with a few exceptions, are now common form. The maximum holding of fiduciary assets varies: in some cases it has been increased in stages since its first introduction. Generally, it has varied between one fifth and one third of total currency liabilities. In most instances the limit has been expressed as a fixed sum rather than as a percentage in order to avoid possible embarrassment to the boards in the event of a sharp fall in currency circulation. For in many of these territories at their present stage of development, the fiduciary securities may, in certain circumstances, have only a limited marketability.

Looking at individual currency areas: the East African Currency Board was authorised to issue up to the equivalent of £10 million against fiduciary assets in 1955, this figure being doubled in 1957; and Jamaica introduced powers to acquire fiduciary assets in 1956. But it was not until 1960 and 1961 respectively that similar powers were taken in the Eastern Caribbean and Malaya.

Exceptionally no general amendment was made to the regulations of the West African Currency Board. The prospect of early withdrawal by Ghana and Nigeria from this currency system made it desirable to leave the question of fiduciary issues fully open to the successor central banks. Only in the case of Sierra Leone was a fiduciary element introduced, the Board having been authorised to invest, under its existing regulations, a total of £2 million of its assets in internal loans of the Sierra Leone Government issued in 1957 and 1958.

The primary purpose of introducing fiduciary powers was to make part of the external currency backing available for capital expenditure at a time when traditional sources of investment money had become scarce. It came, however, to be recognised that the new powers, by making it possible also to conduct operations in short-term paper, not only promised the currency boards more room for manœuvre and flexibility in operations but also, at least in the larger territories, could enable local financial machinery to be improved.

The currency expansion, which fiduciary operations generate, frequently stimulates an immediate demand for imports leading to a demand on the board for sterling. The result is to leave the boards with little net increase in currency liabilities but with a reduction in sterling assets as if the fiduciary securities had been bought directly for sterling. Indeed for convenience the latter has actually happened on occasion.

Where the operation consists only of taking up long-term internal securities of government, the benefit to the economy is limited and largely of a ‘once-for-all’ nature. For, having once acquired long-term and unmarketable securities, a currency board tends to revert to a position of automaticity. Continued flexibility in operations requires not only the retention of an unused margin of fiduciary powers for emergencies but also operations in marketable or self-liquidating assets which can be used to cushion fluctuations in local credit conditions. In less-developed economies such aims are difficult to achieve; but they remain important whether or not a central bank is the ultimate objective.

A valuable though less obvious development in some of the larger currency boards has been the further improvement of facilities for the supply, withdrawal and remittance of currency. For example, a wider network of currency offices has been created in Africa alongside a marked expansion in the branch systems of the commercial banks. With more centres from which the banks can send or receive overseas remittances and with, in some cases, special facilities for internal remittances through the board, appreciable reductions in charges to the public are being achieved.

Individual boards

The **Southern Rhodesian Currency Board**, established in 1939, and acceded to shortly afterwards by Northern Rhodesia and Nyasaland, continued in existence until 1956. In the post-war period there was a gradual but conscious preparation for a central bank. The preparation was perhaps less on the technical plane than in matters of representation and relations with governments and financial institutions, although powers were taken in 1947 to hold securities issued locally. As early as 1948 the Southern Rhodesian Government had sought an enquiry into the desirability of setting up a central bank. The advice given was that the three territories should continue for the time being with the Currency Board but under expert management aiming towards a central bank.

Next must be mentioned the changes in the area covered by the **West African Currency Board** commencing in 1958 with the withdrawal of Ghana. In 1959 Nigeria also withdrew, involving replacement of the Board's currency both there and in the Southern Cameroons. From a peak circulation of over £WA 125 million, the Board's currency liabilities had fallen to £WA 28 million by the 30th June 1961. This reduction is the measure of the withdrawal of the Board's notes and coin all of which have been promptly redeemed in sterling. In addition the Board distributed out of its surplus sterling assets £3½ million to Ghana and £6 million to Nigeria in 1960. Notwithstanding these massive outpayments the Board's liquidity and ability to meet its remaining commitments was not impaired.

Where a new currency authority replaces such a board the procedure is simple. The new authority issues its notes and coin to the public in exchange for the board's currency; and then tenders the latter to the board for sterling. Such final redemption has been allowed at par without commission charge both by the West African Currency Board in respect of Ghana and Nigeria and by the East African Currency Board in respect of the former Somaliland Protectorate which withdrew from the Board in 1961. Had any liabilities of the countries concerned been part of any fiduciary assets outstanding, the board in question would have been entitled, by virtue of prior agreement with the government concerned, to deliver at par the fiduciary assets in question in part redemption of the currency tendered to it.

At one time the currency of the West African Currency Board was accepted readily throughout the whole of West Africa. Within the currency area itself remittances could be made, for example, between Bathurst in the Gambia and Victoria in the Southern Cameroons as readily and cheaply as between two centres inside, say, Ghana or Nigeria. In spite of the value which the common currency has had for traders and banks, the withdrawal of Ghana and Nigeria is a logical outcome of political developments. It has caused no serious damage in this particular instance, because these West African countries do not have common frontiers and do not enjoy any large-scale exchange of goods and services with each other.

The remaining constituents of the West African Currency Board (Sierra Leone and the Gambia) decided early in 1961 to seek advice on their future currency policy. They were counselled to withdraw from what remained of the West African Currency Board and to create, in each case, their own national currencies and currency authorities. For the Gambia, a sterling currency board on simple lines was proposed pending clarification of the territory's political future. Sierra Leone was advised that its interests would best be served by establishing a new institution which would not be a bank but would have expert management of the kind adopted after 1948 in Rhodesia and, in addition, status and powers on the lines now being developed in East Africa and explained later.

In contrast to West Africa, a measure of currency unification had occurred in 1950 in the West Indies with the formation of the **British Caribbean Currency Board**. This served British Guiana and the British islands of the Eastern Caribbean which had previously operated a number of separate currency boards. The West Indies dollar (with a par value of 4*s*. 2*d*. sterling) was also given legal tender status in Jamaica in 1955 alongside the Jamaican pound; and the latter was given similar status in the B.C.C.B. area. The original aim of a complete unification of the two currencies and, more recently, the possibility of setting up a Federal Central Bank for the West Indies, is, however, subject to the constitutional changes at present taking place in the British West Indies.

The Malayan Currency Board had from 1938 onwards been the issuing authority for Singapore, Penang, Malacca, all the Malay States and Brunei, and its currency also circulated in Sarawak and North Borneo together with local issues. It was formally converted in 1950 into the **Malaya and British Borneo Currency Board** with sole right of issue in the whole area. In 1957 the establishment of an independent Malayan Federation, easily the Board's largest constituent, created a new situation. In spite of its intention, realised in 1958, to set up a central bank, the Federation Government agreed, as a transitional measure, to the continued use of the Board's services provided that certain requirements could be met. This was done by the conclusion in 1960 of a convention between the five territories. The convention maintained in their essentials the existing procedures of currency management but made provision for some diversification of the foreign exchange backing and introduced fiduciary powers for the first time. Any important change of policy by the Board required unanimous agreement of the constituents and provision was made for orderly winding-up if one or more territories gave notice to withdraw.

Since then the Board has continued to operate fully and satisfactorily. But the convention is significant chiefly because it provided a monetary constitution in which states in very different stages of political development, whether dependent or independent, could participate on an equal footing.

It seems possible that in East Africa, where the establishment of an independent Tanganyika in December 1961 has created a situation similar to that described for the Malayan area, a comparable revision of the **East African Currency Board's** constitution may be the next step.

The recent history of the East African Currency Board is of particular interest. In the first place the Board was transferred from London to East Africa in August 1960 and its membership changed to give representation to the five constituent territories[a] with an independent chairman and, as before, one other member chosen as a currency expert. Since its transfer the Board has not only improved its services to the constituent territories by expanding its network of offices, an important factor in banking and trading costs in an area of great distances and limited transport facilities, but has also established closer relations with local banks and other financial institutions. More important, and in addition to the powers of fiduciary issue already possessed (up to the equivalent of £20 million of securities issued by the five governments), the Board was authorised in December 1961 to issue currency against bills discounted for, and advances made to, the banks in respect of the area's vital crop financing operations (to a total of £5 million at any one time).

For a currency board in the Commonwealth these latter powers of credit creation without the apparatus of a central bank represent a new departure. Their aim is to provide some of the facilities for the monetary management of the banking system which are provided elsewhere by a central bank, but without forestalling or impeding the development of central banking in a form suitable to new political conditions.

Creation of central banks

Passing now from currency boards to the creation of central banks, the past ten years have seen such banks established in the Federation of Rhodesia and Nyasaland, Ghana, the Malayan Federation, Nigeria and Jamaica. Their constitutions vary widely according to circumstances and needs. However, all except that of the Malayan Federation, have taken on the issue of currency and have either the power or obligation to redeem their currencies in sterling, the main currency of their countries' external trade and the repository of the greater part of their external reserves, so broadly maintaining the foundations on which confidence in the currency was based and the banking system operated. All of them have become bankers to their central government and to the commercial banks. The task of organisation especially on the banking side, has often been formidable; but has been successfully carried out. The central banks mentioned are all wholly owned by their respective governments but their statutes clearly aim at ensuring a broad measure of independence both of status and of powers.

In recent years, some of the new central banks have undertaken a limited diversification of their external assets. They are holding or have obtained power to hold other

[a] Kenya, Tanganyika, Uganda, Zanzibar and Aden.

external currencies in their statutory reserve in addition to gold and sterling. Since independence, Ghana, Nigeria and Malaya have joined the International Monetary Fund and the International Bank for Reconstruction and Development and other newly-independent countries are contemplating doing so. In such matters the new central banks are well placed to provide their governments with expert advice and access to financial contacts abroad.

The **Bank of Rhodesia and Nyasaland** was established in 1956, the Chairman of the Currency Board becoming the bank's first Governor. The bank was required to maintain a reserve of external assets (gold or sterling or currencies convertible into either) and stood ready to buy and sell sterling within prescribed margins from parity. Among other activities the bank began in 1957 to act as agent of the Federal Government for the issue of Treasury Bills and has since done much to stimulate a market in these and other short-term instruments. New financial institutions were required for this purpose: and as a result of the bank's efforts two accepting houses were established in 1957, followed two years later by two discount houses. The capital for these new institutions came partly from the United Kingdom and partly from local sources, including the banks and mining finance companies. The central bank was able to help these houses to lay the foundation of a short-term money market which is now well established.

Ghana was the next country to found a central bank. This step had been preceded in 1951 by the formation of the Bank of the Gold Coast, a government-sponsored institution, in response to popular demand for a bank specifically to finance African enterprise. The declared intention was originally to endow it with responsibility for issuing currency; but in 1956-57, when independence was approaching, it was decided to set up a separate central bank (the Bank of Ghana) and to confine the original institution, under another name, to commercial banking activities. This decision was in line with the general practice elsewhere of separating central and commercial banking activities.

The Bank of Ghana, like the West African Currency Board, has a statutory obligation to issue and redeem its currency on demand against sterling at a fixed rate. The bank's currency functions were segregated in a separate Issue Department, a practice which has been followed in Jamaica but not in the Malayan Federation or Nigeria. The creation of separate issue departments appears to have been largely determined by the wish to preserve public confidence and by the belief that this aim could be furthered through highlighting the currency circulation and the assets held against it. At the same time the separation involves a measure of rigidity which occasionally has had to be specially overcome. Unless special factors, such as confidence or history, require a separate issue department, there does not seem to be any outstanding advantage for new central banks in adopting one.

Under the law setting up the Bank of Ghana, the Issue Department assets had to consist primarily of gold and sterling assets but approved fiduciary assets were permitted up to a maximum of £G 12 million. This figure corresponded to roughly 40% of minimum currency circulation at the time (1957) but only 30% of the maximum. (The importance of cocoa in the Ghanaian economy is largely the reason for the heavy seasonal movement in the currency circulation.) The form of the fiduciary powers of the central bank were designed, not only to preserve the liquidity of the central bank, but also to encourage the financing of capital needs out of the large official holdings of sterling which Ghana possessed. The initial fiduciary limit seemed adequate, under the conditions then prevailing, to enable the central bank to help to create and maintain a market in government securities and thus play an indirect role in the mobilisation of development capital. In October 1961, following the adoption of new methods of financing the cocoa crop, the Bank of Ghana was authorised to add to other eligible external assets in the Issue Department, bills and securities payable in convertible currencies: at the same time the limitations previously imposed on the length of maturity of external securities, for crop finance the amount also, were relaxed.

The Bank of Ghana has assisted in creating a market for local Treasury Bills and has improved conditions for the flotation of government loans locally. Shortly after its establishment it set up a bankers' clearing house and, by 1960, it was ready both to re-discount the

Treasury Bills then being issued as well as other eligible bills and also to grant advances (including security "sale and repurchase" agreements) to its bank customers. It has been closely concerned with the financial aspects of the heavy expenditure undertaken on development projects.

In the **Federation of Malaya** an enquiry into the possibility of a central bank was commissioned by the Government in 1955. The report which resulted was not immediately implemented, owing to the need for further consideration of the political and economic background. But in 1958 a central bank, the Central Bank of Malaya, was established in the Federation alone in a form broadly comparable with that originally proposed. The main differences lay in the widening of the definition of eligible external assets, in provisions for varying the required minimum ratios of external assets to deposit and note liabilities and in certain powers over the banks which will be mentioned later. Although the time was not considered ripe for the establishment of a joint central bank to operate both in the Federation and in Singapore, provision was nevertheless made for the bank to extend the geographical area of its operations in the future if this proved desirable.

That the central bank has not used the note issuing powers written into its statutes is a unique situation among central banks in the Commonwealth and results from special local political and economic factors, particularly the position of Singapore in relation to the Federation. In spite of this practical limitation on its activities, the bank has achieved much progress. From the outset it took over the management of Federation Government's bank accounts, hitherto maintained with the commercial banks, and it has since steadily developed its role as the Government's financial agent and adviser. In 1960 it was entrusted with the administration of Exchange Control and also became registrar of the Government's local funded debt. As part of its campaign to improve the market for local securities, investors are now being offered a wider range of government securities and the beginnings of a stock exchange started taking shape in 1960 when daily 'call over' facilities were made available on the central bank's premises. Although there is still no well developed short-term money market, the central bank has promoted the issue of Federation Treasury Bills and stands ready to re-discount them within the limits set by the size of its deposits. With the commercial banks' co-operation, it has attempted to promote a more independent policy on money rates. A local clearing house was established immediately the central bank began operations and the commercial banks have been provided with free remittance facilities between Kuala Lumpur and Singapore.

The **Central Bank of Nigeria** was established in 1958 on the basis of a Report asked for in 1957, and in July 1959, only fourteen months after the passing of the law authorising its creation, the bank began the issue of a national currency and other operations in a newly constructed building. This was a remarkable feat of organisation.

The central bank was required by law to hold external assets in gold or sterling equal to not less than 60% of currency liabilities and 35% of other demand liabilities, and power was given for this to be altered to 40% of total sight liabilities after five years, thus allowing a wide margin for manœuvre. Among its other powers, the bank was permitted to invest, subject to the Finance Minister's approval, up to 20% of its general reserve fund in shares of corporations set up to promote the development of a money or securities market or to improve the machinery for the financing of economic development. Limited though this provision was in amount, it was significant in underlining the bank's aim to encourage the growth of markets in both short and long-term securities and to provide facilities for the banks and other financial institutions to find truly liquid employment for their cash resources within Nigeria rather than abroad. The provision pointed towards the desirability of the bank's helping to build up the machinery for development finance rather than of participating directly in such development.

The important results achieved by the central bank are reflected in a steady expansion of the Treasury Bill market; in the mobilisation of substantial funds for investment in loan issues of the Federal Government; in the setting up of a bankers' clearing house; and also in the increasing number of financial houses establishing themselves in Lagos, a factor of great potential importance.

The **Bank of Jamaica** began operations only in May 1961. It functions in a country which already possesses a fairly well developed financial machine. Its initial operations, particularly in the field of Treasury Bills, have met a ready response. The bank has become banker to the Government and to the commercial banks; a clearing house has been set up and the bank's influence with financial institutions generally has been established.

In 1958 the West Indies Federation Government expressed its intention to establish a central bank for the Federation at a suitable opportunity into which the Bank of Jamaica might have been absorbed. But the recent constitutional developments in the area make this unlikely.

Control of commercial banks

In this article only brief mention can be made of the powers and attitudes of the new central banks in relation to the commercial banks. Several factors make this a complex subject: the need for the central banks to feel their way; the frequent weakness or even absence of local money and capital markets; and the greatly differing status of the various commercial banks, both expatriate and indigenous.

The central banks naturally hope for close contact with the other banks. There is great value also in certain facilities, for example clearing houses, which the central banks can provide. The basic problem for a central bank, however, is to make its influence felt effectively but without unnecessary interference with the commercial banks and other institutions. All this cannot easily be realised. There is sometimes a temptation to invoke powers in order to achieve a rapid growth of central bank influence. This does not always produce in the longer run the benefits expected of it. On the other hand monetary safeguards and checks are often called for in conditions of rapid expansion; and experiment in them is inevitable and often most desirable.

The new central banks have been endowed with various powers over commercial banks; and some of these are being tried out. In Ghana, Nigeria and Malaya the central banks were authorised to require all banks to maintain a minimum holding, expressed as a ratio to deposit liabilities, of defined liquid assets. The liquid assets could be held either locally or in London and the proportion could be varied by the central bank, maximum ratios being fixed by statute in the case of Ghana and Nigeria. Besides being an instrument of credit control these ratios also provided standards of liquidity for the developing banking systems. The inclusion of sterling assets allowed the banks to employ liquid funds at interest in the absence of adequate possibilities inside the country concerned; but it was expected that in time local assets would predominate.

Liquidity ratios of this kind have created certain difficulties, first of interpretation in relation to branches of expatriate banks and secondly in the exclusion of intrinsically liquid assets (for example, holdings of non-sterling convertible currencies) from the definition. For the new currency authority in Sierra Leone such ratios were not proposed. In other countries, alternative powers have been adopted. The most common, though it also has its defects, is a requirement that banks should keep minimum balances with the central bank, for example in Rhodesia a ratio varying, at the central bank's option, from 6% to 25% of demand and much smaller proportions of time deposits. In Malaya a separate minimum reserve ratio, at present 4%, operates in addition to the liquidity ratio already mentioned.

This by no means exhausts the statutory powers. Thus in Rhodesia the central bank may, since 1960, give directives to the banks: in Jamaica it is allowed to impose selective controls on the banks' lending and to prescribe ratios of local assets to deposits. The list of instruments is a long one but it remains to be seen how far any particular method can by itself be used to good effect or how far they are in fact used at all in present circumstances.

Another important aspect of central bank relations with the other banks is supervision, whether informal or required by law, for the purpose of ensuring that proper standards are maintained. Central banks generally have power to demand returns and information relevant to them. (Banking legislation usually enforces similar procedures by government in those territories where no central bank exists.) In Nigeria, the Government has enforced a system of regular and compulsory inspection, though this is carried out by a government department and not by the central bank.

Control over the banking system of developing territories may be complicated by the presence of branches of banks operating in more than one country. On the one hand such branches have great advantages from the standpoint of stability and because of their ability to draw on outside resources in times of need. The expensive and elaborate branch systems built up in some territories could hardly have been undertaken by smaller banks. At the same time the branch system tended in the past to make the individual branches look outwards for directions as regards their policies and rendered the application of comprehensive banking legislation less easy. With the economic expansion and political change now taking place in the territories under review these banks have themselves taken these factors into account in grouping their branches around local head offices or equivalent with managers endowed with greater responsibilities operating on the spot.

In some territories special problems have been set for the central banks by locally-incorporated banks, mostly with indigenous capital and management, largely because of the latter's shortage of capital and of experienced staff and management: and the supervision exercised under banking legislation whether by the central bank or government has been of particular value.

As this article has shown, the process of development from the more simple forms of monetary structure has been a slow one, and the speed of future advance depends on many factors outside the immediate control or competence of the central banks or their governments. Public confidence, the willingness to save and invest and the economic growth and potential of the territory concerned all play a part, and the form that monetary development takes in particular cases depends essentially upon what is most appropriate in the local conditions ruling at the time. This evolution may in some cases involve the replacement of one type of machinery by another; but it may equally consist of development within the same machine. Thus currency boards have been or are being adapted to become more flexible and useful instruments of policy in times of economic and political change; and central banks, after a period of digestion of their original powers and responsibilities, have been able to enlarge their powers and the scope of their action in the light of the experience gained initially.

Although varying in both form and effectiveness, the central banks generally represent the most advanced type of monetary authority functioning in these Commonwealth countries to-day. This does not imply that all of them have yet been able to fulfil the objectives originally planned. Moreover it does not necessarily follow that central banks should be regarded as the immediate or perhaps even the ultimate objective for all developing countries, small as well as large. Other forms of issuing institutions may be evolved for their particular circumstances. In one or two instances, recent enlargements of currency board powers clearly aim at conscious and active monetary management without the expense and elaboration of a central bank. This represents a promising trend, which may well have lasting importance in those places where the monetary structure does not and is unlikely to provide the conditions for effective functioning of a central bank and where adequate banking facilities already exist.

No matter, however, whether the progress made has taken the form of setting up a new central bank or of expanding or amending the functions of an existing currency board the aims have been much the same: to maintain the basis for internal and external monetary stability; to encourage conditions in which local savings can be stimulated and channelled into local investment; to create local security markets in which liquid funds can be usefully and profitably held and in which influence can be exerted over local credit conditions by the monetary authority; and to avoid action in the currency field which by breaking up the fruitful use of a common currency could make trading with adjacent territories more difficult.

None of these things is easy to achieve. Legislation or directives by themselves can only prepare the ground. Much, however, can be and has been done by enlisting the support and interest of the various components of the financial system. In some developing countries a fair degree of specialisation in money and capital market techniques had already been reached, for example in the Malayan monetary area, before a central bank came into existence. In others there had been little progress. The financial systems of all the countries mentioned have in the past relied heavily on London not only as a repository for currency reserves but also as a money market in which liquid resources of the banks and of business houses could be profitably employed. The new central banks have generally recognised the value to them of the London connection, particularly in times of financial stress: and of the inter-dependence between themselves and the commercial banks. At the same time their aim has been and must be to create as far as possible conditions in which the aims set out above can be achieved.

These developments prompt two observations: first, that whatever criticisms may be made of past systems, these have seldom remained static for long periods; and secondly, that the advances now achieved towards the general aims outlined earlier do not represent a final answer. There are in fact no particular financial techniques which can of themselves bring about these ends in every case nor can real public understanding of the importance of these matters, on which much must depend, be achieved overnight. There are therefore cogent reasons of efficiency, stability and public confidence why the changes which inevitably become desirable should be made gradually and in the light of experience.

The monetary systems of Commonwealth countries are continuously developing. So is thinking and discussion about them, both locally and abroad. In all the systems described, to-day's conditions of more rapid economic development are adding to the responsibility of the currency authorities and to the importance of expert management and sound monetary practices.