Working papers

The Southern Side of Embedded Liberalism: The Politics of Postwar Monetary Policy in the Third World

Eric Helleiner

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In an important 1983 article, John Ruggie highlighted the central role of the ideology of “embedded liberalism” in influencing the construction of the global monetary order after the Second World War. Embedded liberals sought to build quite a different kind of global monetary order from the gold standard that “classical liberals” had endorsed. Instead of celebrating the discipline of the gold standard, they sought to strengthen the capacity of national governments to pursue domestically-oriented activist monetary policies. National policy autonomy was bolstered through adjustable exchange rates, the international provision of balance of payments financing, and the endorsement of capital controls. The international monetary system was now to be more of a “servant” of the domestic Keynesian and welfarist goals that had emerged so prominent across many industrial countries in the wake of the Great Depression of the 1930s (Helleiner 1993).

The position of Southern countries within the new “embedded liberal” global monetary order has received less attention than that of Northern countries. This neglect is unfortunate because dramatic monetary reforms took in some Southern countries in the early postwar years which were in keeping with the new “embedded liberal” commitment to domestic monetary autonomy. In the first few decades of the 20th century, many independent Southern countries had created central banks whose mandate was one endorsed by classical liberals: maintaining a internationally convertible currency on the gold standard. In other parts of the South – particularly those regions that were colonized – currency boards had been introduced for the same purpose. During the early post-1945 years, however, policymakers in the many Southern countries followed their counterparts in the North in rejecting this “orthodox” approach to monetary policy.[1] In place of currency boards and the gold standard, they introduced capital controls, more flexible exchange rates, and politically-controlled national central banks designed to serve "nationalist" domestic goals of rapid industrial development and nation-building.

But the choice to reject monetary orthodoxy was not a uniform one across the South in this early postwar period. In many ex-British colonies, for example, these "embedded liberal" and "nationalist" monetary ideas seemed to have less influence. To be sure, most of these newly independent countries replaced colonial currency boards with new national central banks and national currencies. But these central banks and currencies were initially managed in quite orthodox ways. The experience of many ex-French colonies in Africa was even more striking. Many of these countries at independence rejected the idea of creating national currencies and central banks, and instead maintained regional colonial currency boards which precluded national discretionary monetary management altogether.

What explains this diversity of experience? If we assume policymakers were driven only by economic efficiency concerns, the divergent policy paths are difficult to explain. After all, many of the Southern countries that pursued radically different monetary policies in this period shared very similar economic circumstances and constraints. To account for the divergent policy decisions, we must instead turn to the theme of this volume: the importance of politics in shaping monetary policies. Given space constraints, my goal in this chapter is not to provide a comprehensive political

[1] In this paper, I use the term “orthodox” to refer to the objectives of classical liberals in the pre-1945 period.

explanation of monetary policy decisions across all Southern country during the early postwar years. Instead, I focus attention on the specific role that dominant Northern states played in influencing these decisions. My goal is to show that the divergent monetary choices of Southern governments were strongly influenced by the political objectives of US, British and French policymakers in their respective spheres of influence. Like the other chapters in this volume, my thesis is that political considerations - rather than any calculations of economic efficiency - played the central role in determining monetary outcomes (Kirschner 2000).

To develop this argument, the chapter is divided into three sections. The first section examines how the US provided important - and in some ways surprising - political support to countries within its sphere of influence that sought to reject orthodox monetary policies. I argue that its support stemmed partly from the commitment of American financial advisors to "embedded liberal" ideas but also from their recognition of the geopolitical value of not challenging the growing power of Southern economic nationalism in the postwar period. In the second and third sections of the chapter, the significance of US support for "embedded liberal" monetary reforms is made clear through an examination of two contexts where it was not present: regions coming under British and French influence. I highlight how Britain and France strongly opposed these kinds of monetary reforms in their ex-colonies for their own ideological, geopolitical and interest-based reasons. Their attitudes, in combination with the ideological orientation of some specific Southern governments, help to explain why reforms took a more limited and cautious form in some parts of the South in the postwar period. I conclude the paper with a very brief discussion of the relevance of this study today when many Southern countries are once again undergoing dramatic monetary reforms.

AMERICA'S NEW MONEY DOCTORS: THE SOUTHERN EXTENSION OF "EMBEDDED LIBERALISM

To those familiar with US foreign economic policy during the early 20th century, US policy towards monetary reform in Southern countries after World War Two may seem surprising. In the pre-1931 era, US policymakers and private financiers had played a lead role in encouraging many Southern countries to adopt the gold standard and set up national monetary authorities that could guarantee its maintenance (e.g. Rosenberg 1985, Drake 1989). Indeed, the American Edwin Kemmerer became the most famous of the foreign “money doctors” promoting monetary reforms along these classical liberal lines across Latin America and other parts of the South in the interwar period.

In the early post-1945 years, however, US policymakers did an about-face. Explicitly rejecting Kemmerer's approach, they came to be leading critics of orthodox monetary policy in the Southern countries and strong supporters of monetary reforms along the new unorthodox lines. Because of the dominant position of the US in the postwar global monetary order, this policy reversal gave important strength to this trend of monetary reform. Why did US policymakers come to reject Kemmerer's ideas in the early postwar period?

To date, this question has received little academic attention. The activities of these American "money doctors" has received little scholarly attention from historians of either

international financial advising or US foreign economic policy. One might have expected the new unorthodox thinking to come from the US Treasury which during the early 1940s had become sympathetic to unorthodox international monetary ideas under the influence of Henry Morgenthau and Harry Dexter White. In fact, however, the first criticisms of orthodox money doctoring in the South came in the early 1940s from a traditionally conservative source: the US Federal Reserve. The Federal Reserve's interest in this issue was triggered by a 1941 request for advice on monetary reform from the Paraguayan government. In response to this request, the chief of the Latin American section of the staff of the Federal Reserve's Board of Governors – Robert Triffin – launched an extensive process of consultation over several years with financial officials from the US, Paraguay and other Latin American countries (Triffin 1947a: 16, 112-4).

Out of this consultation process emerged the view among key Federal Reserve officials that a different approach to money doctoring would be necessary in the postwar period from that promoted by Kemmerer. This new approach was first put into place in Paraguay in a set of monetary reforms in 1943-45 which the US Federal Reserve (1945: 528) described as "a fundamental departure from the central banking structures previously established in Latin America". Triffin(1946: 25) himself described the Paraguayan reforms as "revolutionary". The Paraguayan model of reform was then promoted actively by Triffin and other US officials in a series of "money doctoring" missions over the following decade in countries such as Ethiopia (1942-44), Guatemala (1945), the Dominican Republic (1947), Honduras (1950), the Philippines (1949), South Korea (1950), and Ceylon (1950).[2] In Kim (1965: 6)'s words, the new Bank of Paraguay's legislation "heralded much post-war central banking legislation that followed".

Various publications by Federal Reserve officials in this period outline clearly their rationale for the new approach to money doctoring (Federal Reserve 1945, Triffin 1944, 1946, 1947a,b). They argued that the interwar experience had highlighted the drawbacks of a passive monetary policy geared externally to respond automatically to changes in the balance of payments. In countries whose balance of payments were vulnerable to crop failures, dramatic changes in export markets, or volatile international capital movements, this "monetary automatism" was simply too costly in an economic and social sense. It magnified – rather than minimized - the impact of international instability on the domestic economy in this context.[3] In the 1920s, for example, orthodox

[2] Triffin (who was originally from Belgium), in his role as chief of the Latin American section of the Federl Reserve staff in the 1943-6 period, led many of these initial Federal Reserve "money doctoring" missions to Southern countries. Other US officials involved in these missions included Bray Hammond, John Exter, Henry Wallich, David Grove, John DeBeers, Arthur Bloomfield and John Jensen (Urquidi 1991, Kim 1965). For Honduras, see Vinelli (1950), Bulmer-Thomas (1987). For Dominican republic, see Wallich and Triffin (1953). For Korea, see Kim (1965). For Philippines, see Castro (1960), Cullather (1994), Grove and Exter (1948), Hartendorp (1958). For Ceylon, see Karunatilake (1973), Gunasekera (1962). For Ethiopia, see Degefe (1995). The Ethiopian case is the one for which I have found the least information. Although the US played an important role in supporting the country's 1942-44 monetary reforms, I have not yet been able to determine the detailed nature of their support nor whether it was the Federal Reserve that was involved. I should also make clear that the new central banks set up under US assistance did not always pursue the nationalist policies that US money doctors advised.

[3] The money supply might have been less dependent on changing balance of payments condition if trends in private bank lending had counteracted the direction of monetary policy pursued by currency boards or central banks in Southern countries. In reality, however, private bank lending trends usually reinforced

central banks in Latin America reinforced the inflationary impact of sudden capital inflows by expanding the money supply in response to the large balance of payments surpluses these inflows produced. Then when the balance of payments turned suddenly into deficit in the 1929-31 period (as capital flows suddenly collapsed and export markets dried up), orthodox central banks reinforced deflationary tendencies by contracting the money supply. In this way, orthodox monetary management subjected these economies to what Triffin (1946: 74) called "unbearable and often unnecessary disruptions".

Triffin (1946: 79-80, 1947a) also noted that these adjustments might not even be equilibrating in the way that orthodox theory predicted: "the very basis of the theory of automatic adjustments is open to serious objections in countries the export trade of which is highly concentrated in a few categories of products with inelastic demand. The pressures exerted upon the balance of payments often originate much more in the harvest within the country or in the movement of the business cycle in the purchasing countries than in fundamental price and cost disparities with relating to competing markets" (Triffin 1946: 79). Similarly, he argued that traditional adjustment mechanisms might not be effective in poorer, trade dependent countries where internal price levels were mostly determined by international prices of its exports and imports: "It is possible that an increase in the means of payments would not be followed by a rise in domestic prices, the level of which remains fixed by international factors, but by a direct increase in imports, with a correlative deficit in the inflow and outflow of foreign exchange" (Triffin1946: 80). He also noted that traditional adjustment mechanisms may be inappropriate in situations where a balance of payments deficit resulted not from price disparities or excessive credit, but from the preference of domestic consumers to import goods once a certain level of economic development had been reached.[4]

In the new American view, what was needed, thus, was a form of monetary management that *insulated* the national economy from international disruptions rather than *reinforced* the latter's impact on the former. Whereas Kemmerer's banks (and colonial currency boards) had prioritized the external stability of the currency and international equilibrium, the new priority was domestic economic development. In the Guatemalan reform of 1945, for example, the Federal Reserve highlighted that the goal was to create "guidance of monetary policy primarily by analysis of domestic developments, rather than in automatic response to changes in international reserves" (quoted on Laso, 1957-8: 448). Similarly, one US official involved in the 1950 Honduran reforms lamented how the monetary system had in the past "not been used an as instrument to promote economic development" in the past, but that now it would be able "to assist the growth of the national economy" (Vinelli 1950: 420).

Indeed, this new domestic priority was clearly written into the constitutions of the central banks set up by the new US money doctors. The Paraguayan central bank, which became the prototype of the new approach, described one of its key purposes as "the development of productive activities" (Triffin 1946: 115). A key goal of the new Philippine central bank established in 1948 was also "to promote a rising level of

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central bank or currency board policy because the banking sector was dominated by foreign banks that responded primarily to the needs of the foreign trade sector.

[4] Triffin (1968) later developed a more developed critique of the working of the classical gold standard from the standpoint of poorer countries. Other development economists also developed further critiques of the effectiveness of orthodox adjustment mechanisms in poorer countries concentrating on other points than Triffin did at this time (e.g. the importance of supply rigidities).

productive, employment and real income in the Philippines". Similarly, Ceylon's new central bank set up in 1949 was designed to serve, among other things, "[t]he promotion and maintenance of a high level of production, employment, and real income in Ceylon, and [t]he encouragement and promotion of the full development of the productive resources of Ceylon" (quoted from Kim 1965: 15fn2).

To achieve these new domestic objectives, central banks had to have quite different charters than those written by Kemmerer. To begin with, their note issue and deposit liabilities were no longer regulated by rigid provisions linking them to gold or foreign exchange reserves. With this external constraint loosened, the national currency could be managed without such a strict connection to the condition of the balance of payments. To ensure that international economy did not disrupt domestic goals, central banks were also allowed to adjust the exchange rate within limits in certain circumstances and to control capital inflows and outflows. Triffin (1947a: 141) acknowledged that many economic liberals would regard the endorsement of the latter in particular as "highly unorthodox", but he reminded them that the new IMF Articles of Agreement now permitted and even encouraged capital controls (by saying that IMF funds could not finance large capital outflows).[5] Indeed, the principle negotiators of the Bretton Woods agreements, Keynes and White, had seen capital controls as a central element of the new "embedded liberal" monetary order (Helleiner 1993).

Federal Reserve officials also insisted that central banks be equipped with strong powers to promote the development of their national economies.[6] Central banks set up with Kemmerer's advice had usually been expected to influence the money supply through mechanisms such as discount rate changes and open market operations. In most Southern countries (as well as the British Dominions), US officials noted that these tools were quite ineffective because domestic financial markets were underdeveloped and the banking system was often dominated by foreign banks which responded primarily to monetary developments only in their home country. To become more effective, central banks needed to be able to impose reserve requirements on private banks and to control private lending, and perhaps even to lend directly to the public.[7]

Central bank involvement in lending to the public was advocated not just to strengthen central banks' abilities to do national monetary management. It was also proposed as a means to promote developmental goals more directly. In contexts where foreign banks dominated the domestic banking system, there was often very little "developmental lending" for the domestic economy. A central bank could fill this void by taking on the role directly. Alternatively, it could play a key role in encouraging

[5] Triffin (1947b: 178) acknowledged that capital controls had often been used for destructive nationalist purposes in the 1930s, but he noted: "They have, however, enriched the apparatus through which monetary policy can be made effective. The situation calls for exorcism rather than for excommunication. The new weapons should not be scrapped indiscriminately – an objective on which general agreement would, anyway, be impossible – but harmonized and integrated, through international consultation, into the implementation of internationally defined monetary objectives".

[6] Indeed, in the case of Paraguay, Triffin (1946: 72) noted the powers of the central bank were "almost without precedent".

[7] Acknowledging that there was a risk that direct credit lending by central bank might compromise a central bank's monetary tasks, US officials argued that it was crucial to make the Monetary Board the most important body in the new central banks (Triffin 1946: 19-20).

domestically-owned private financial institutions to be established to do this kind of lending.

Interestingly, US officials also did not oppose provisions which allowed central banks to lend to their own governments. The reasoning was that it was simply unrealistic to expect a central bank to behave otherwise in the context of many developing countries. As Triffin (1946: 23) put it, “Few central banks are really in a position to deny assistance to the Treasury”.

One final recommendation of US money doctors in this period is worth noting in the context of contemporary support for “dollarization”. They encouraged Southern governments to eliminate the use of foreign currencies within their territory wherever that practice was widespread (e.g. such as the cases of Honduras, the Dominican Republic, Paraguay and Ethiopia). It was impossible, US officials argued, for a central bank to develop a strong and independent monetary policy devoted to national development unless the currency it issued held a monopoly position inside the country. In the Dominican Republic, for example, Wallich and Triffin (1953: 24) noted how difficult it was to control inflationary pressures deriving from a balance of payments surplus in a context where the US dollar was the main currency in use (as it had been since 1905). In Paraguay, where an (outdated) Argentine currency standard was widely used, US officials also argued that the use of a foreign standard “throws doubt upon the stability” of the national currency (Triffin 1946: 60).

The decision of US Federal Reserve officials to turn their backs on Kemmerer and endorse quite unorthodox monetary policy and institutional reforms in Southern countries requires political explanation, especially since it was often quite controversial at the time among orthodox thinkers and some parts of the business community.[8] A key part of the explanation is the new ideological commitment of US policymakers in this area to "embedded liberal" ideas. Triffin and other economists in the US Federal Reserve were clearly influenced by the Keynesian revolution that was underway. Keynesian ideas were important not just in legitimating a more domestically-oriented monetary policy geared to full employment and growth. In his earlier writings (particularly his 1913 recommendations for a central bank in India), Keynes had also advocated that central banks in developing countries become involved in the direct provision of credit for the support of domestic industry and agriculture (Chandavarkar 1996: 99). This approach to central banking – which had been rejected by British and US officials in the 1920s - was the same as that now endorsed by the US Federal Reserve.

Policymakers who were sympathetic to "embedded liberal" ideas had been strengthened politically inside the US by the shift away from financial and monetary orthodoxy that took place within the country in the wake of the Great Depression in the early 1930s. I have described elsewhere how the opposition of New Dealers to the liberal financial world of the 1920s had considerable influence in turning US policymakers away from orthodox international monetary policy during the Bretton Woods negotiations (Helleiner 1994: ch.2). New Dealers also may have played a role in influencing US

[8] . In the Philippines, for example, Cullather (1994: 81) notes the strong opposition of US business to the introduction of capital controls in 1950 since it interfered with their ability to repatriate profits freely. The inflation that accompanied the monetary policy pursued by the new central bank of the Philippines was also strongly criticized by the US business community (Hartendorp 1958: 255, 608).

policy towards Southern monetary reforms in some instances. In the Philippine case, for example, Hartendorp (1958: 255, 618) attributes US support for unorthodox central banking to the prominence of "New Deal" officials in the Treasury.

Even if US officials were not themselves convinced by the new monetary ideas unleashed by the 1930s experience and Keynesian revolution, they were forced to recognize the political power of these ideas abroad. Across the world, monetary policy had moved during the 1930s and wartime decisively away from the orthodox notion that monetary policy should be geared externally to respond automatically to changes in the balance of payments. In place of this "monetary automatism" was a new commitment to "autonomous monetary management" geared to *domestic* goals of monetary stability, full employment and rapid growth (Triffin 1946: 22). Triffin (1947a: 144) concluded from these changes that it was simply not politically feasible to try to return to orthodox policies: "Tomorrow's currencies will be managed currencies…Any attempt to enforce rigid solutions patterned upon orthodox gold standard doctrines would be even more futile in the postwar than it already proved to be in the interwar period".

This shift away from orthodox monetary policies had been particularly striking in Latin America, the region which strongly influenced Triffin's and other Federal Reserve officials' early views. When declining export markets and the collapse of US lending produced dramatic balance of payments crises in the early 1930s, most Latin American countries abandoned the gold standard and introduced exchange controls rather than undergo dramatic deflations.[9] Many of them also began during the 1930s to experiment with more activist monetary policies aimed at financing government spending and producing domestic economic growth. Exchange controls, which had initially been introduced as temporary measures, were often made permanent in order to allow this kind of monetary policy from being pursued independent of external constraints. Governments also became more directly involved – often via the central bank – in directing credit to the private sector as a means of promoting economic growth.

These reforms were inspired by more of an "economic nationalist" ideology than the Keynesian ideology that guided Northern countries' reforms.[10] Their economic nationalism was similar to that of nineteenth century thinkers such as List and Hamilton who advocated rapid industrialization via strong state intervention in the economy. While List and Hamilton advocated tariffs and domestic subsidies to industry, economic nationalists in Southern countries in this era also promoted broader forms of state intervention in the economy, including that of active monetary management. In addition to supporting industrialization, these economic nationalists also saw the creation of a powerful central bank and a new national currency as tools of nation-building and important symbols of national sovereignty.

In the early 1940s, US Federal Reserve officials displayed a detailed understanding of the various policy innovations in Latin America during the 1930s. Triffin (1944), in particular, was very knowledgeable about them and was explicit in acknowledging that they

[9] Maddison (1990: 333-4) points out that many colonial regions, such as Indonesia, would probably have pursued the same policy course as did Latin America in the 1930s if they had been independent at the time. Instead, they were often forced into dramatic deflations, and some Europeans even seemed to approve of the way that colonial rule created "ideal conditions" to enforce a deflation that European workers would not accept (van Gelderen 1939: 11).

[10] For the post-1945 economic nationalism in Southern countries, see for example Seers (1983), Burnell (1986).

had strongly influenced his thinking.[11] He made a special point frequently to cite his debt to Raul Prebisch's "pioneering work" in this area (Triffin (1947a: 141fn.2). Prebisch, who was head of the Argentine central bank between 1935-43 and then became head of the UN Economic Commission for Latin America, was the leading theorist of the "structuralist" school that advocated economic nationalist policies of import-substitution industrialization. Triffin recognized his importance by consulting him in detail on the initial Paraguayan reforms.[12] Other Latin American governments, such as that in the Dominican Republic, also invited Prebisch for consultations with the Americans as part of the preparations for US-led monetary reform programs (Wallich and Triffin 1953: 25).

US officials, thus, were very familiar with the policy changes that had taken place across Latin America during the 1930s and understood the extent to which the new approach to monetary policymaking had become politically entrenched in the region. To challenge this approach might not just be futile but also detrimental to broader US geopolitical goals. In the important Paraguayan case, for example, US monetary consultations took place at a time when US policymakers were actively seeking through aid packages and diplomatic efforts to prevent the Paraguayan government from allying itself too closely with the Axis powers. Accomodating the nationalist leanings of the country's government, rather than challenging them, was the US priority. And to many nationalist Paraguay officials, monetary reform served not just the goal of industrialization but also the objective of consolidating an exclusive national currency for the first time. Indeed, US advisors played to nationalist sentiments when they advocated the elimination of the use of the old Argentine monetary standard on the grounds that it would help the country "reaffirm its monetary independence and sovereignty" (US Federal Reserve 1944: 46). They argued that the use of a foreign currency standard "has injured the prestige of the national currency both at home and abroad" (US Federal Reserve 1944: 46) and they encouraged the new currency to be called the "guarani", a name which "derives from the racial origins of the Paraguayan nation" (US Federal Reserve 1944: 47).[13]

By the late 1940s, geopolitical concerns in the new Cold War also encouraged an accommodating approach towards economic nationalism in the South.[14] In the Philippines, for example, local politicians after the war sought to replace the colonial currency board with a powerful central bank that would introduce capital controls and pursue expansionary

[11] He also occasionally cited the experience of the British Dominions in highlighting the costs of not having a powerful central bank in contexts where only a small local capital market existed and foreign banks dominated the financial system (e.g. Triffin 1946: 19). Plumptre's (1940) analysis of the Dominions situation was similar to Triffin's in this respect and may have influenced the latter's thinking. Although Triffin doesn't mention them, some Middle Eastern countries such as Iran (Minai 1961) and Turkey (Fry 1979) had also engaged in some policy innovations similar to those in Latin American countries during the 1930s. Also interesting was the experience of Korea under Japanese colonialism. Unique among colonial powers, Japan set up a central bank in Korea quite early in its colonial rule which pursued very unorthodox "developmentalist" policies, such as direct lending within the Korean economy (e.g. Woo 1991).
[12] The head of the Bank of Colombia (Enrique Davila) was also very involved in Paraguayan consultations with Triffin and both he and Prebisch even spent 3 months in Paraguay in 1943 and 1945.
[13] In the Dominican Republic, Triffin and Wallich (1953: 24) also appealed to nationalist sentiment in making the case for the creation of an exclusive national currency: "In international affairs, it will strengthen the position of the Republic and put it on an equal footing with all other nations".
[14] I have shown elsewhere the influence of the Cold War in also encouraging US officials to accept European and Japanese preferences for monetary and financial interventionism in the early postwar years (Helleiner 1994: ch.3).

monetary policies (Cullather 1994: 63-6). These local demands stemmed not just from the goal of rapid industrialization (and the pressing fiscal needs of the government), but also from broader nationalist sentiments that a currency board arrangement was "an unsuitable system for an independent Philippines"[15] Many US officials were wary of the local demands for monetary reform and would have preferred to see more orthodox deflationary measures introduced by the late 1940s. But Cullather (1994: 64-71, 76, 81, 191) shows how Cold War fears of the growing power of left-wing rebels in the Philippines encouraged the US to go along with local expansionary objectives and not to press for deflationary measures which might have given political strength to the rebels.

One further geopolitical motivation deserves mention. In countries emerging from European colonial rule, a more sympathetic approach to nationalist monetary reforms helped US officials to gain influence in the newly independent countries. Some ex-British colonies, for example, explicitly sought out US "money doctors" instead of British ones because the latter favoured the maintenance of colonial boards (for reasons explained in the next section). In Ceylon, for example, the currency board "was looked upon as a financial appendage of colonial government and was recognized as part and parcel of the system of colonial administration" (Karunatilake 1973: 3). The construction of a central bank came to be seen by its supporter as necessary to achieve "economic freedom"; indeed, one supporter argued that was even more important than the Independence Bill (Karunililake 1973: 8). Even the ability to adjust the national exchange rate – not possible under the currency board arrangements - was seen in political terms by the Minister of Finance in 1949 as creating a "free currency, the content of which, the value of which, we and we alone can determine according to the best interests of the people of Ceylon" (quoted in Karunilatlake 1973: 13). Since US officials were known to be more sympathetic to these nationalist goals,[16] they were invited – instead of Bank of England officials - to help construct the country's first central bank. Indeed, local policymakers wanted a central bank like that recently constructed under US advice in Korea and the Philippines (Karunatilake 1973: 5).

In British-occupied Ethiopia during the early 1940s, a similar situation took place. At this time, the money in circulation within the country was a motley collection of currency issued by the Ethiopian state, Maria Theresa thalers, traditional commodity-based small denomination money, and Italian and British currencies. Ethiopian policymakers sought to create an exclusive national currency for the first time in order to assert the state's authority over the whole country, and to create a monetary system that could be mobilized to promote rapid economic growth. The British were supportive of the objective of consolidating the national currency, but they pushed for it to be managed on a currency board basis. To the Ethiopians, however, a currency board was unacceptable since it prevented them from

[15] Quotation from the US-Philippine Finance Commission set up in 1946 to study future of monetary arrangements (quoted in Golay 1961: 217). Interestingly, one US business figure in the Philippines who opposed the goal of more activist monetary policy tried to turn this nationalist argument on its head, arguing that the introduction of such policy was not in keeping with nationalism because it simply followed the example US policymakers had set when they left the gold standard in 1933: "It would have been far less 'colonial' if the Philippine Government had truly struck out on its own and reestablished the gold standard" (Hartendorp 1958: 618).

[16] Indeed, one analyst of the 1949 report of the Federal Reserve's money doctor, John Exter (who went on to become the new central bank's first governor) notes: "Reading the Report, one is struck by the extensive criticism made of the Currency Board system" (Karunitilake 1973: 7)

pursuing their nationalist monetary goals. They also saw the British proposal in highly political terms as an attempt to turn the country into a protectorate or colony of the UK.[17] To offset British influence, Ethiopian policymakers turned to US officials for advice, recognizing correctly that the latter would support their goal of creating a powerful central bank guided by more nationalist thinking. Indeed, US officials not only provided advice but also secretly printed Ethiopa's first notes and provided the central bank with its first governors until 1959 (Degefe 1995).[18]

US support for the new approach to monetary policy thus had both ideological and geopolitical roots. Regardless of its sources, US support was important in encouraging the trend of nationalist monetary reforms in the South. Its importance stemmed not so much from the specific content of the advice provided by US money doctors. Most of the countries that received US advice were, after all, already committed to the course that US money doctors recommended.[19] The 1930s experience, the rise of economic nationalism and broader anti-colonial sentiments had all played a role in encouraging Southern countries to reject the orthodox monetary economics. What was more important than the specifics of US advice was the simple fact that the political weight of the world's dominant financial power would not stand in the way of nationalist reforms.

DISCOURAGING "THE WRONG TENDENCIES": BRITISH RESISTANCE TO NATIONALIST MONETARY REFORMS

The importance of US support is highlighted well if we turn to examine some cases where it was not present. As mentioned already, British policymakers were quite opposed to nationalist monetary reforms and they went out of their way to advise newly independent, ex-British colonies not to implement them. Some countries – such as Ceylon and Ethiopia, as we have seen – simply ignored this advice, but others were forced to listen because of continuing close economic and political ties to Britain. In these latter cases, the introduction of nationalist monetary reforms took place more cautiously and slowly.

Why were British policymakers so opposed to the new approach to monetary policy in Southern countries? The opposition was partly ideological. The institution that took charge of British foreign economy policy in this area in the early postwar period was the Bank of England. Alongside Kemmerer, Bank of England officials had been leaders of orthodox "money doctoring" during the interwar period (e.g. Plumptre 1940). Despite the experience of the 1930s and the nationalization of the Bank in 1944, its outlook remained largely orthodox throughout this period. The Bank of England's leading money doctors in

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[17] These fears were intensified by the fact that the British made clear that the new currency would be called the Ethiopian pound and the currency board's headquarters would be in London and be staffed with representatives not just of the Ethiopian government but also of the Bank of England and UK Treasury (Degefe 1995: 237)

[18] The conflict between US and UK money doctors emerged in a number of other places too, although with less influence on the outcome. In Saudi Arabia during the war, for example, US officials strongly opposed the British effort to convince Saudi Arabia to introduce currency board. In the end, neither piece of advice was followed (Young 1983:14-15). As noted later in this paper, the US-influenced IBRD and IMF often opposed British advice on monetary issues in ex-British colonies.

[19] The same had been true of Kemmerer's missions (Drake 1989).

the postwar period, such as J.B.Loynes, largely picked up where their predecessors had left off.

Equally, if not more, important in explaining British policy was the geopolitical goal of preserving the sterling area and Britain's privileged position within it (Bangura 1983). The continued existence of the sterling area after the war provided Britain with not just international prestige, but also important balance of payments support. This support came partly from the fact that sterling area countries and colonial currency boards held their often considerable foreign exchange reserves in sterling and in London; indeed, in the case of currency boards, Balogh (1962: 30) noted that this arrangement ensured that any increase in the money supply within the Southern country resulted in a "*de facto* loan" to Britain (and often at below "market" rates since sterling balances earned very low rates of interest). The absence of capital controls and exchange rate risk within the sterling area - when combined with limited local money markets – also encouraged private banks, companies and individuals in many sterling area countries to export savings and liquid funds to London markets. When this export of local savings was offset by long-term loans back to the colony from London, there might be no net balance of payments benefit to Britain. But the arrangement provided still provided one further interest-based benefit of the sterling area to Britain: that of bolstering the City of London's role as an international financial center.

If countries turned to unorthodox policies, these benefits of the sterling area to Britain would diminish. Activist domestic monetary management, for example, might produce balance of payments deficits that would force countries to drawn down their sterling reserves and sterling assets in London. Demand for sterling and sterling assets in London, and for sterling more generally, would also be reduced if national currencies were backed with less than 100% reserves or if reserves were held in local government securities. Similarly, capital controls and the creation of domestic money and capital markets might reduce capital outflows to London and reduce the dependence of Southern borrowers on London financiers.

British hostility towards the new nationalist approaches to monetary policy initially took an interesting form: opposition to the creation of central banks in newly independent countries altogether. Throughout the 1940s and 1950s, at the same time that the US was advocating the creation of powerful central banks, the Bank of England usually opposed their creation and it was still promoting the creation of currency boards in countries such as Jordan and Libya in this period. In their various colonies, British officials went to great lengths to try to convince local policymakers not to create central banks and to maintain the colonial currency boards arrangements after they attained independence.[20]

In some cases, they even sought initially to keep together the large currency zones that had been administered by one currency board in colonial times, such as that in East Africa (Tanzania, Uganda, Kenya, Aden), or Malaya (Singapore, Malaysia, Brunei,

[20] There were some exceptions. In the Gold Coast, Cecil Trevor (who had had experience with the Reserve Bank in India) had unexpectedly recommended the creation of a central bank in a 1951 report, a conclusion that greatly annoyed the Bank of England and led them to insist that he not be allowed to provide advice to Nigeria (Uche 1997). In the rest of West Africa, the advice was consistent: the Bank of England's Fischer 1953 report for Nigeria recommended against a central bank as did Loynes' 1961 report for Sierra Leone and Gambia (PRO 1025/127 E/57, March 1961).

Borneo, Sarawak)[21]. In other regions such as West Africa, however, the British were willing to accept what Loynes called "prestige and appearance" reasons why countries would want to break up these zones and create national currencies immediately at independence (as Ghana did in 1957, Nigeria in 1958, Sierra Leone in 1963, and Gambia in 1964).[22] Most newly independent countries did, indeed, place considerable symbolic value on the creation of a national currency. As Ghana's finance minister put it, "no nation could be regarded as fully independent which shared a common currency with its former colonial neighbours"[23] But the British hoped that the creation of these national currencies would not lead to, what Loynes called privately, "the wrong tendencies". He hoped they would simply provide a "national façade for the currency".[24] As the Acting British Governor of Sierra Leone put it in 1960, "any reforms should be of a very conservative nature".[25]

In a further effort to prevent the creation of central banks, the British even began to reform currency boards to try to accommodate criticisms of their operations (e.g. EACB 1967, 1972, Lee 1986: 20). Some currency boards, such as that in East Africa in 1955 and Malaya in 1960, were allowed to begin issuing some unbacked money in an effort to increase the flexibility of their operations. These currency boards were also permitted to invest their reserves in non-sterling assets such as local government securities and dollars around this time. The East African currency board also began in 1960 to cultivate a local money market by discounting activities in the local Treasury bill market and by allowing banks to hold balances with it and offering clearance and settlement services. In addition, the headquarters of these operations were moved from London to the regions themselves and more local staff were recruited. Finally, colonial images on currency boards notes and coins were replaced with iconography more appropriate to newly independent countries in 1959 in the case of Malaya (the queen was replaced by a fishing craft) and 1964 in East Africa (Lake Victoria appeared on the notes).

The British opposition to central banks contrasted sharply not just with US policy but also with the Bank of England's own policy during the interwar period. In that earlier era, the head of the Bank of England, Montagu Norman, had played a lead role in encouraging countries around the world to set up independent central banks where none yet existed (including in some colonized regions such as India). These banks, he had hoped, would help to insulate the management of money from political pressures and to preserve the international gold standard. Now that central banks had become associated

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[21] These arrangements rarely lasted long, with the East African countries creating national currencies in 1965-7 and the Malayan common currency board breaking up completely by 1967.

[22] Loynes quotation from his 1961 report to Sierra Leone (PRO CO 1025/127 E/57 March 1961, p.8).

[23] PRO CO1025/42 59/13/04 "Speech for the Minister of Finance on the Occasion of the Signing of the Currency Notes Contract Between the Gold Coast Govt and Messrs Thomas de la Rue and Co. Ltd, London, Sept. 15, 1955". He noted elsewhere: "The issuing by any country of its own distinctive currency is recognizes as one of the outward and visible signs of sovereignty – as visible, indeed, as the national flag" (Gold Coast 1956-7b: 860). Similarly, Sierra Leone's finance minister in his 1962 budget speech noted: "No independent country can regard itself as truly independent until it has its own national currency" (quoted in Uche 1996: 157fn66).

[24] Quotations from Uche (1996: 151).

[25] PRO CO 1025/127 S.F.P.9482, Acting Governor of SL to Galsworthy, Oct.7, 1960.

with more activist monetary management, however, the Bank of England wanted nothing to do with them.

Central banks, it now argued, would only lead to inflationary pressures as politicians controlled them to finance government deficits. Moreover, efforts to promote economic development with expansionist monetary policies could also lead to inflation and balance of payments crises. Capital controls, British officials argued, were often ineffective and would also discourage new inflows of capital (EACB 1966: 13). British officials also argued that modern central banking could not work in contexts where no local money and capital markets existed. If efforts were made to overcome this problem by involving the central bank directly in lending – as US officials recommended - this would only risk undermining confidence in the bank if losses were sustained. As a final point, the British often stressed that, in comparison to currency boards, central banks were more expensive to run and required a kind of expertise that was often not available in newly independent countries (e.g. EACB 1965: 7-11, Uche 1997).

It quickly became clear to British officials, however, that most Southern governments disregarded these arguments and planned to establish central banks anyway. In part, the desire of Southern policymakers for a modern central bank was symbolic. As Bangura (1983: 49) notes in discussing nationalists in Africa, "they associated central banks with political maturity and independence" (see also Basu 1967: 52). Similarly, Schenck (1993: 427) notes in the case of Malaya's decision to create a central bank in 1959: "For Malayan ministers, a central bank was overwhelmingly a political symbol rather than an instrument to wield real economic independence".

Equally important, however, many policymakers in the South rejected currency boards because they precluded the kind of activist monetary policy that was seen as necessary to serve domestic goals of economic development. As Ghana's first finance minister put it, "a Currency Board is the financial hallmark of colonialism… [it] is a dead thing…an automatic machine which has no volition of its own and could do nothing to assist in developing our own financial institutions" (Gold Coast 1956-7: 852).[26] President Nyerere in Tanzania explained the decision to create a national central bank on similar grounds: "We found that it is impossible to control our economy and achieve the maximum development while our currency and credit was outside our control" (quoted on Rothchild 1968: 234).

In defying British preferences, these nationalists were sometimes supported by the US, as we have seen in the cases of Ceylon and Ethiopia. Also important was the role played by the US-controlled international financial institutions who made similar arguments as Triffin had. In Nigeria, for example, the Bank of England was frustrated by a 1954 IBRD report that called for the creation of a central bank much more quickly than the Bank was advising (Uche 1997). Similarly, the British were annoyed with an IBRD mission in Malaya during the next year that advocated the creation of a central bank with strong powers to pursue an autonomous domestic monetary policy and develop a local money market (Schenk 1993: 412-3). In addition to reserve requirements, the IBRD even recommended that the central bank be able to control the overseas assets of banks that are counterpart funds of Malay bank deposits. In Uganda in 1962, too, an IBRD report recommended the creation of central bank on similar grounds (Mason et al, 1962: 71-2). One final example comes from Sierra Leone where Loynes was disappointed by the fact

[26] See also Nkrumah (1965: 221), Bank of Sierra Leone (undated: 2-3).

that, after he had recommended against the creation of a central bank, the government decided to get a second opinion from the IMF since it was known to favour the creation of central banks at this time (Uche 1996: 157fn61).[27]

The IBRD and IMF were not the only external forces interfering with British efforts to preserve orthodox monetary arrangements. Also important were some Northern academic experts who provided monetary advice to Southern governments at this time. One of the more prominent was Thomas Balogh, a left-of-center economist from Oxford who was very critical of currency boards on the grounds that they served Britain's interests by: reinforcing the export-oriented nature of Southern economies, encouraging capital outflows (both official and private), and leaving Southern countries dependent on the judgments of London financiers to determine their creditworthiness (Balogh 1959, 1962). His anti-imperialist analysis and his advocacy of powerful central banks in Southern countries appealed to many nationalist politicians in countries seeking to throw off British rule and Balogh became involved in debates on monetary reform in various British colonies such as Malta, Jamaica and Malaya. In Jamaica, for example, he was invited in 1958 by the Jamaican government to support their arguments for a central bank, arguments that the British government was attempting to counter at the time. He was apparently very effective in this task, leaving one British colonial official to note privately that the "visit by Dr.T.Balogh has probably made it impossible ever to get things properly back".[28] When he intervened in debates in Malaya the next year, a Treasury official warned his colleague: "You may not be aware of the fact but Dr,Balogh has in fact been a considerable thorn in the flesh of the Colonial Office on a number of occasions when Colonial currency systems have been concerned".[29]

As it became clear that they could not resist the creation of central banks, British officials shifted their strategy. They accepted the case for a central bank, but insisted that it be managed in an orthodox manner. The national currency should be backed by 100% reserves, they argued, and its convertibility into sterling should be guaranteed. They also opposed giving the central bank large powers, such as the power to control capital movements or to force commercial banks to hold funds at the central bank (e.g. Uche 1997). In the words of one British official in the Gold Coast (Ghana) in 1955, the objective was to ensure that the local government "does not set up a Frankenstein".[30]

British officials tried to appeal to nationalist sentiments in advancing these arguments in favour of an orthodox approach to monetary management. In the Gold Coast, Loynes, for example, argued that a stable and internationally convertible currency was crucial because "it is bound up with the international reputation of the Gold Coast as an independent country".[31] Other British officials were encouraged to stress how "[t]he world is strewn with unsatisfactory Central Banks and shaky currencies and the

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[27] The IMF did not favour the creation of central banks in every instance. An IMF mission to Libya in the early 1950s (co-headed by the American, George Blowers, who had helped Ethiopia establish its central bank a decade earlier) came out in favour of a currency board, although it suggested a central bank be set up at a later time. (Blowers and McLeod 1952-3).
[28] PRO CO1025/123 R.J.Vile to Mr.Marnham, April 30, 1958.
[29] PRO T236/5149, C.Lucas to J.Rampton, Jan.1, 1960.
[30] PRO CO1025/42 59/13/04 "Gold Coast Currency and Banking: Notes for Meeting on Sept.14, 1955", p.4.
[31] PRO CO1025/42 59/13/04 informal Report of J.B.Loynes to Minister of Finance, Feb. 21, 1956, p.1.

combination of the two in any country is simply to replace political dependence by economic dependence, exemplified in foreign aid".[32]

When one looks at the kinds of central banks established in many ex-British colonies, it appears that the British were quite successful in advancing these arguments. Most of the central banks set up – with the exception of Ceylon – had initially quite orthodox charters in contrast to those established under the US Federal Reserve's guidance. They usually had only a limited fiduciary issue, no reserve requirements, strong sterling backing and often no provisions for the use of capital controls or for direct lending by the central bank (Bangura 1983). This was even true of the central banks set up in countries such as Jamaica, where Balogh had initially had some influence, or Malaysia where the IBRD had called for more radical measures. Indeed, domestic critics argued that these were not real central banks but just another name for the old currency boards (Gold Coast 1956-7: 705-6). As one Ghanaian critic put it, "if we are going to have a Central Bank we must have a Central Bank with "teeth" and not a Central Bank which is only a channel for controlling the financial assets of their country by a foreign power" (Gold Coast 1956-7: 711)

The orthodox nature of these central banks partly reflected British pressure. But it also stemmed from the continued dependence of many of these countries on London financial markets and links to the British economy. Policymakers were particularly concerned to cultivate confidence in their new national currencies in order to prevent capital flight and encourage international lending to their country (Bangura 1983, Schenck 1993). A central bank with an orthodox charter served this goal, as did public pronouncements of a commitment to orthodox policies at the time of its establishment. In Kenya, for example, the central bank was set up with what one observer called "the expression of sentiments of impeccable respectability in monetary matters, of which Mr.Montagu Norman would have been proud" (Hazlewood 1979: 146). As President Kenyatta noted: "One thing cannot be forgotten: currency issues and management is a real business and no magic. The bank cannot make something out of nothing and the Government cannot by order, or 'Fiat' grant to a piece of paper a value independent of the backing which it possesses. Such backing is provided by foreign exchange into which the Kenya currency will be convertible at its established par value." (quoted in EACB 1966: 118).[33]

If monetary reforms were usually quite limited at the time of independence in ex-British colonies, they often moved rapidly in a more nationalist direction in response to fiscal and economic pressures. In Ghana, for example, the government's desire in 1961 to accelerate economic growth and government spending led policymakers to allow the central bank to lend to the government more easily, to mobilize the foreign exchange reserves of Ghanaian residents and to introduce capital controls (Bangura 1983: 99). Similar measures accompanied the introduction of Nigeria's 1962 development plan. Even conservative Kenya had begun deficit financing and tightened exchange controls by 1970. These episodes usually led to the results feared by British officials: the drawing

[32] PRO CO1025/42 59/13/04 "Gold Coast Currency and Banking: Notes for Meeting on Sept.14, 1955", p.4.

[33] Similarly, Uganda's president opened its central bank with the following warning: "We must…work for every cent before the Bank can produce that one cent. The Bank is not, and will not be turned into a charity institution" (quoted in EACB 1966: 122).

down of sterling reserves, lessened dependence on London financial market, and often a break from the sterling area itself.

FRENCH GOALS: THE SURVIVAL OF THE CFA FRANC ZONE

Not all newly independent Southern countries created national central banks guided by more domestic monetary objectives in the postwar period. One prominent exception among ex-British colonies was Singapore which maintained a currency board backed by 100% reserves (although a Monetary Authority was established in 1970 to do some central banking functions unrelated to note issue). Its unique preference reflected partly its status as an international trading entrepot, a status that gave it a strong reason to favour a stable currency. Singapore's finance minister from 1959-71 also later made clear that the preference had ideological roots: "None of us [in Cabinet] believed that Keynesian economic policies could serve as Singapore's guide to economic well-being." (Goh 1991: 181).

The more dramatic exception, however, involved the ex-French colonies in west and central Africa. At independence, most of these countries did not create national central banks and national currencies, but instead continued to be members of the two common currency zones that had existed under French colonial rule.[34] The post-independence CFA franc monetary zones functioned in a similar way as had their colonial predecessors (e.g. Chipman 1989: 208-216). The CFA franc was convertible across the entire region with no capital controls existing among member countries. The notes and coins in use across each zone were also almost identical, with no national emblems on them[35] (with the exception of those in Cameroon which acquired its own note issue). All external payments of member countries were settled through an "operations account" held at the French Treasury which continued to cover all deficits emerging in these accounts. Even the name CFA franc was the same as the colonial currency, although the meaning of CFA had been changed from "Colonies Francaises d'Afrique" had been changed to "Communaute Financiere Africaine".

How do we explain this anomalous experience among Southern countries? A key part of the explanation is that the French government went to much greater lengths than the British government had to preserve the monetary structures in place in the colonial period. In his chapter for this volume, Stasavage (2000) suggests that the French government's desire to maintain the CFA zone reflected the power of specific interest groups who benefitted from the zone's existence. Chipman (1989) argues that French policy was linked primarily to its broader concern with its status as a world power after the war. Others also note that the CFA zone also provided balance of payments support for France in much of the postwar period. As in the case of the sterling bloc, the absence of capital controls and exchange rate risk between France and CFA countries encouraged

[34] The central African CFA franc zone included Cameroons, Central African Republic, Chad, Congo and Gabon, while the members of the west African CFA fanc zone in the early years after independence were Ivory Coast, Dahomey, Mauritania, Niger, Senegal, and Upper Volta (as well as Togo after 1963).

[35] In 1962, each CFA franc note acquired a small country identification code (a letter following serial number) which enabled policymakers to analyse inter-country balance of payments situations. These payments situation were important in determining how much credit was allocated to each country by the regional central bank, as noted below (Robson 1968).

large private capital outflows from the latter to the former, outflows that usually exceeded public and private capital inflows (Joseph 1976, Balogh 1962: 46). Equally important, CFA countries earned continuous foreign exchange surpluses vis-à-vis the outside world in this period and these surpluses were controlled by the French Treasury which used them to support the French balance of payments position (Joseph 1976).[36] More generally, an official French commission appointed to investigate the future of the CFA zone in 1960 reported that France-CFA trade was bolstered by the zone's existence because CFA francs were convertible only into FF. Not only did this provide French companies with a protected export market (especially because the CFA franc was overvalued by this time), but France was also able to acquire raw material imports without having to use scarce foreign exchange.[37]

To increase the attractiveness of the CFA zone to African governments, the French government undertook a series of reforms of its operations in the postwar period. The first reform was one that Britain had also introduced in a more limited way in its currency boards: after the Second World War, the pre-war requirement that CFA currencies be backed with 100% reserves in gold, FF or convertible currencies was changed to allow up to two-thirds of the reserve to be held in local assets (Onoh 1982: 29). The next key reform went much further than the British had contemplated in the sterling area. The French created regional central banks in central Africa (1955) and west Africa (1959) which provided not only rediscount facilities for local banks but also short-term commercial credit (e.g. crop finance) and medium-term loans for development projects (Ezenwe 1983, Robson 1968: 201-7). After independence, the French went one step further in 1962 to transform the regional central banks into inter-governmental institutions with a majority of Africans on the board (although the headquarters remained in Paris until 1972 and France retained an effective veto). At this time, each member government was also given more input into the central banks' decisions on the overall level of credit being allocated to their country as well as decisions on how this credit would be distributed to banks and companies within their country.

In these ways, the French attempted to accommodate Southern goals of using the monetary system more actively to promote economic development. The 1960 report of the official commission looking into the future of the CFA zone was explicit in acknowledging this objective; in the words of one British official, the report noted the goal of reforms should be "to allow for the maximum expansion of economic activity in these countries, but nevertheless in such a way as to maintain their allegiance."[38] This last line highlighted the price of these economic reforms: the CFA zone remained a French-controlled monetary system. For this reason, many Africans continued to see CFA franc as "colonial money" and the CFA zone as a form of neocolonialism.[39] The extent of the 1962 economic reforms should also not be overstated. Credit from the central banks was refused to CFA countries which ran a consistent balance of payments deficit within the system, and CFA governments were still not allowed to run fiscal deficits (although

[36] Medhora (1992: 163) notes that operations account offers open-ended guarantee of foreign exchange, but that central African countries had never used the overdraft facility and West African countries used it for the first time only 1980.

[37] BOE OV100/19 "Summary of the Report of the Conseil Economique et Social on the Revision of the Structure of the Franc Zone Published in March 1960" summary by M.Hailstone.

[38] Ibid, p.3.

[39] Quotation is from Joseph Tchunjang (quoted in Guyer 1995: 13). See also Nkrumah (1965: 20).

French aid was available as a partial, albeit-politically controlled alternative to finance government spending).[40]

Given these constraints, it may seem surprising that more African governments did not break out on their own and create national currencies and national central banks as governments in ex-British colonies had done. To be sure, some countries such as Guinea and Mali did pursue this option, as is explained below. But the fact that more did not surprised many observers at the time, including this British Foreign Office who was convinced that the situation would not last: "In the longer term, the very conservativism of the Central Banks, and their inability under the present rules to play the part they ought to be playing in helping the countries they serve to establish their economic independence is, I should have thought, more likely to lead to moves of the kind Guinea and Mali have already taken".[41]

One reason so many African governments decided to remain in the CFA zone may have been that the French took a very tough stance towards countries that adopted a more independent course. Countries such as Guinea and Mali, which sought to break away from the CFA zone, found their broader security, trade, aid, and other economic links to France severed by the French government in ways that were very costly (Chipman 1989; Joseph 1976). African governments in the CFA zone thus appeared to face a starker choice than members of the sterling area has faced: either accept the CFA currency or face sharp break in the relationship with France. For many elites, the prospects of losing security ties, aid support and guaranteed access to the French market (as well as the stable and high prices paid by the French for these materials) were ones they were not willing to consider (Stasavage 2000).

This explanation is important, but it does not tell the whole story. It neglects the fact that the 1960 French commission examining potential reforms to the CFA actually opened the door to the possibility of France allowing distinct national currencies to be created. The commission even suggested that France would allow these currencies both to be devalued in situations of fundamental disequilibrium and to be defended by capital controls if such controls were necessary for economic development.[42] That African governments did not push more strongly for this kind of reform given French openness to it requires explanation. Indeed, when in 1961 the French government indicated their willingness to consider the creation of distinct national banknotes for each newly independent CFA country in West Africa, the proposal was actually opposed by every African government involved.[43]

To account fully for the choice made by CFA countries, we must thus also look to a domestic explanation: the ideological roots of the decision. The governments of CFA

[40] As the French government's Jeanneney Report of 1964 noted: "France in effect renounces the possibility of refusing to finance initiatives taken unilaterally by African governments, in return the States accept a certain monetary tutelage, particularly in the matter of deficit financing" (quoted in Robson 1968: 207). Credit from the IMF and World Bank to national governments also complicated the fiscal arrangements in the CFA zone.

[41] BOE OV100/3, R.J.O'Neil (FO) to W.Pattinson (Treasury), Jan.16, 1964.

[42] BOE OV100/19 "Summary of the Report of the Conseil Economique et Social on the Revision of the Structure of the Franc Zone Published in March 1960" summary by M.Hailstone. Other newly independent countries which had been members of the broader franc zone had established central banks and national currencies at independence, such as Tunisia and Morocco. By the early 1960s, they had also imposed exchange controls on transactions with France.

[43] BOE OV100/20 C.M.Le Quesne to Foreign Office, Sept. 19, 1961, p.3.

countries were much less committed to the kind of "economic nationalist" thinking that was influential elsewhere in the South at this time. Mundell (1972: 27) notes that different choices of ex-French and ex-British colonies was partly a product of the fact that African elites had been exposed to different economic ideas in two colonizing countries; "Keynesian heterdoxy" reigned in London, while "monetary orthodoxy" held more sway in Paris. More generally, most of the countries that stayed with the CFA zone were headed by conservative governments whose commitment to nationalist ideology was much weaker than in other Southern countries at this time. Many of their leaders had endorsed the goal of independence from France in only a lukewarm fashion and they remained wedded to the assimilationist goals that the French had promoted in the colonial period (Chipman 1989; Alalade 1979). A national currency and national central bank thus appeared to hold much less symbolic value for these leaders than it had for policymakers elsewhere.

The importance of the ideological orientation of African governments is also clear when one examines the counter-cases of Guinea and Mali. Soon after their independence, these two countries established a national central bank and national currency (in 1960 for Guinea and 1962 for Mali).[44] They also imposed capital controls and the central banks were given considerable powers. In Guinea's case, for example, there was initially no provision for backing the currency whatsoever and no limitation on government borrowing from it. The five French banks in the country were also told to deposit 50% of their foreign currency holdings with the central bank, and when four of them refused, they were liquidated.[45]

This radically different approach to monetary reform from the other ex-French colonies was driven by the ideological goals of the two countries' leaders, Sekou Toure (Guinea) and Modibo Keita (Mali). Unlike leaders in other ex-French African colonies, these two leaders were committed to a strong anti-colonial nationalism. In the economic sphere, their ideas were in fact much more radical than the nationalist ideas that were prominent in the ex-British colonies and the countries that the US was advising at this time. Influenced by the French Marxist economist Charles Bettleheim, they sought not just to build a national industrial economy but one that was organized on the basis of revolutionary and ambitious form of national economic planning (Toure 1979, Zolberg 1967, Jones 1976).

Both leaders saw monetary reform as crucial to their political and economic projects. An independent national currency would not only enable effective capital controls to be introduced. It would also allow the country to mobilize the monetary system behind its planning objectives (Toure 1979: 371-9, Yansane 1979, Jones 1976). In broader nationalist terms, Toure (1979: 371) also noted of the creation of Guinea's national currency and central bank: "its importance is comparable, if not superior, to that of our choice of immediate independence in Sept. 1958. This reform provides the basis upon which we can carry out our economic liberation, previously impeded by a financial

[44] See Kirshner (1995). Mali's departure from the CFA zone was not permanent. It reestablished an operations account with France in 1968 and rejoined the CFA zone fully in 1984. Another country that pulled out of the CFA zone was Mauritania. It withdrew in 1973 and created a central bank in 1978 (Yansane 1984: 77).

[45] BOE OV106/1 "Guinea" by J.Margetson, March 25, 1960; BOE OV106/1, pp.103-4.

system which remained that of the old regime, linked to the economic system of the colonizing country".

CONCLUSION

The pattern of monetary policymaking in Southern countries during the early postwar era highlights a number of the themes of this volume particularly well. At the most general level, it demonstrates the centrality of politics in shaping monetary outcomes. If monetary policy was guided by economic efficiency concerns alone, we would not have witnessed the same level of diversity among monetary policy choices in these countries. The Southern countries examined in this chapter often faced very similar economic contexts and yet chose very different monetary policies. Only by examining political factors can these choices be explained.

In this chapter, I have highlighted one such political factor: the power of dominant Northern states to shape the monetary policy agenda of Southern states in this period. As I have shown, countries that rejected monetary orthodoxy across the South in this period gained political strength from the fact that their move was endorsed by the dominant financial power after the war, the US. In a striking reversal of their activities in the 1920s, US policymakers played a major role in promoting unorthodox monetary reforms through "money doctoring" missions from the early 1940s through the 1950s. This US role stemmed partly from the broad commitment of US policymakers to "embedded liberal" ideas and partly from geopolitical interests that encouraged them to be sympathetic to the economic nationalist goals of Southern governments.

The importance of US support is clear when we turn to examine some cases where it was not present. As I have demonstrated, British and French policymakers were opposed to challenges to orthodoxy for different ideological, geopolitical and interest-based reasons, and they went out of their way to advise their newly independent, ex-colonies not to follow economic nationalist policies. In British ex-colonies, this advice was usually unwelcome in these countries, but it had some effect in ensuring that monetary reforms would be introduced more cautiously and slowly. In French ex-colonies in central and west Africa, French advice coincided with the conservative preferences of elite policymakers, resulting in the survival of colonial CFA franc zone.

It is worth highlighting that the roots of the distinct foreign policy preferences of US, Britain and France reinforce the thesis of this volume that politics, rather than economics, determines monetary policy. These dominant powers were not giving advice to Southern countries based on some apolitical calculations of what monetary strategies would be most economic efficient for these countries. Instead, their policy advice was driven by ideological perspectives, specific interest group pressures, and broader geopolitical desires to maximize their respective state's power. I have also highlighted how political concerns drove monetary policymaking of the Southern countries themselves. In countries that sought to introduce unorthodox monetary reforms, the primary appeal of these reforms was an ideological one: that they would contribute to the political project of nation-building. The absence of this political goal in the CFA zone also helps to explain why their governments showed little interest in these kinds of reforms.

These themes about the specific significance of politics in driving Southern monetary policies during the postwar period are not just of historical interest. They also remain relevant today, as many of the chapters to this volume attest. Dominant powers continue to play a central role in shaping the monetary policy agenda of less powerful states. David Stasavage's (2000) chapter highlights how the French role in the CFA zone remains a key one forty years after the developments I have analysed. In other regions of the South, US officials (and to a lesser extent British officials) continue to exert enormous influence over the trend of monetary policymaking both directly and indirectly via their control of the IMF. As Illene Grabel's (2000) chapter highlights, they have played a central role in pressing Southern governments during the last decade to considered monetary reforms that reduce or eliminate the possibility of discretionary national monetary policy by their governments. These reforms range from the creation of independent central banks and the abolition of capital controls to the introduction of currency boards, proposals for common currencies, and even support for "dollarization".

This is not the place to attempt to explain recent policies of dominant states towards the monetary affairs of less powerful states, or the responses of latter to these policies. But it is worth noting that a number of chapters in this volume argue that policy decisions continue to be driven by similar political factors as those that I have analyzed during the early postwar period. Stasavage (2000) points to the endurance of the specific interest groups that dominate French policymaking towards the CFA zone. The chapters by Grimes (2000) and Wang (2000) each highlight how dominant powers - in their cases, Japan and China - continue to set policy about their currency's international role partly according to geopolitical concerns about state power, just as Britain and France did in the early postwar period.[46] Abdelal's (2000) chapter also highlights how newly independent, less powerful states still give enormous weight to political objectives of nation-building in their decisions of whether to create new national currencies.

Perhaps the most interesting comparison is with respect to US policy towards Southern countries then and now. As Grabel (2000) highlights, the recent US push for monetary reforms has strong ideological roots, just as did its predecessor in the early postwar years. In place of "embedded liberal" thinking, US officials are now strongly influenced by "neoliberal" ideology that is sceptical of discretionary monetary policy, and of state regulation and national economic planning more generally. In endorsing neoliberal ideology, US officials have done an about-face. In the early postwar period, many Southern governments that favoured unorthodox monetary policies drew support from the fact that the US was prepared to strongly endorsed these policies, even while Britain and France rejected them. By contrast, neoliberal ideology now encourages the US to be among the most strident advocates of the dismantling of the kinds of unorthodox, interventionist practices that it earlier endorsed. [47] In this way, the US has become a more orthodox financial power, a role they also played in Kemmerer's era, but

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[46] See also Gavin's (2000) argument in his analysis of US international monetary policy during the 1960s.
[47] Indeed, those contemporary liberals who endorse dollarization go much further than even Bank of England officials were willing to go in the postwar period. J.B.Loynes' advice to Sierra Leone in 1961, for example, included a strong rejection of the idea of adopt a foreign currency such as the dollar or the pound (as nearby Liberia had done): "It would be reverting to a more primitive form of money management such as existed in a degree, up to 1912; it would deprive both countries [Gambia and Sierra Leone] of useful income; and it would inevitably be an admission in Sierra Leone's case that the country did not trust itself to run its own affairs" (PRO CO 1025/127 E/57 March 1961, p.41-2)

one from which they departed in such a dramatic and interesting way under Triffin's leadership in the early post-1945 years.

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