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The Rise and Fall of Sterling in Liberia, 1870-1943¹

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Abstract: Recent research on exchange rate regime choice in developing countries has revealed that a range of factors, from weak fiscal institutions to the inability to borrow in their own currencies, limits the range of options available to them. This paper uses the case of Liberia to illustrate that new states in Africa during the gold standard era faced similar limitations, even in the absence of formal colonial rule. The rapid depreciation of the Liberian dollar in the nineteenth century led to the adoption of sterling as a medium of exchange and store of value. This initially made it easier for Liberia to service its sterling-denominated debt and for Liberians to purchase imports from Britain. However, as economic relations with the United States deepened during the twentieth century, instability in the pound-dollar exchange rate created serious dislocations in the Liberian economy, ultimately leading the official adoption of the U.S. dollar in 1943. The story of Liberia illustrates the long-standing challenges of globalization for peripheral economies and suggests the need for a reassessment of the origins and impact of colonial monetary regimes.

¹ This research began as part of the British Museum's Money in Africa project, and benefitted from the support of the Leverhulme Trust. I am grateful to Olivier Accominotti, Catherine Schenk, Gareth Austin and participants in the African Economic History Workshop and the 'Money and Borders' panel at the CAS@50 conference. I would also like to thank the Seeley G. Mudd Manuscript Library at Princeton University for providing me with a copy of Kemmerer's report on Liberia.

Africa's monetary history over the course of the twentieth century is characterized by the dominance of fixed exchange rate regimes, which were virtually universal from the late nineteenth century until the collapse of Bretton Woods in the 1970s. This history differs from that of the developed world, where fixed and floating exchange rate regimes have superseded one another from the late nineteenth century.¹ This difference is largely the result of colonialism. Imperial governments required colonies to adopt metropolitan currencies or issued colonial currencies managed by currency boards.² At independence African currencies remained pegged to those of the former colonizers, and many African countries belonged to regional currency unions.³

Most retrospective assessments of colonial monetary systems stress the role of metropolitan interests in dictating the adoption of a 'super-fixed' regime. Hopkins, for example, in his history of the West African Currency Board, which managed the currency of British territories in the region, writes that 'the interests of western nations lay in ensuring that the currencies of countries engaged in international trade were soundly based, readily convertible, and otherwise compatible with the working of the gold standard so that world commerce could be conducted and expanded with smooth efficiency'.⁴ Critics of colonial monetary systems have argued that they acted as a hindrance to development efforts in the colonies.⁵

Recent research on the choice of exchange rate regimes by developing countries has stressed that they often have a more limited range of options than developed

¹ Eichengreen, 'Endogeneity of Exchange-Rate Regimes', p. 3.

² Abdel-Salam, 'Evolution of African Monetary Systems'. This was also true for colonies outside Africa – see Clauson, 'British Colonial Currency System'.

³ Stasavage and Guillaume, 'When are monetary commitments credible?', p. 120.

⁴ Hopkins, 'Creation of a Colonial Monetary System', p. 101. The same point is made in Herbst, *States and Power*, pp. 211-13, and Uche, 'From Currency Board to Central Banking', p. 147.

⁵ Butter, 'Problems of Colonial Financial Policy'; Hazlewood, 'Economics of Colonial Monetary Arrangements'; Uche, 'Bank of England vs the IBRD', p. 221.

countries. In theory, floating offers the opportunity to use monetary policy to mitigate the effects of economic shocks. However, the weak monetary and fiscal institutions of many developing countries leave their currencies prone to high inflation and currency crises.⁶ As a result, many developing countries which claim to have floating regimes actually take steps to limit exchange rate fluctuations, exhibiting a ‘fear of floating’.⁷ Further, the inability of most developing countries to borrow in their own currencies – described in the literature as ‘original sin’ – leaves them vulnerable to debt crises if local currencies depreciate relative to the currency in which they have borrowed.⁸ One option is for developing countries to peg to anchor currencies, but such pegs often lack credibility, leaving the remaining option the adoption of a ‘super hard peg’ such as a currency board or full dollarization.⁹ However, dollarization requires the developing country to abandon monetary independence. The adoption of a foreign currency, in particular, also has political costs. Currencies provide a powerful symbol of national sovereignty, and losing this symbol can be politically damaging even if it provides economic benefits.¹⁰

Bordo and Flandreau have argued that similar dilemmas existed for peripheral economies during the gold standard era. They observe that the challenges of globalization are very similar for developing countries today as they were in the years before 1914.¹¹ Liberia was one of the very few African countries to maintain monetary sovereignty through the age of colonial conquest in the nineteenth century. Its experience from that

⁶ Calvo and Mishkin, ‘Mirage of exchange rate regimes’, p. 104.

⁷ Calvo and Reinhart, ‘Fear of floating’.

⁸ Eichengreen, Hausmann and Panizza, ‘Currency mismatches, debt intolerance and the original sin’, pp. 122-3.

⁹ The example of Argentina illustrates the impact of limited credibility. See Calvo, *Money, Exchange Rates and Output*, ch. 7.

¹⁰ Alesina and Barro, ‘Dollarization’, p. 381; Lamdany and Dorlhiac, ‘The dollarization of a small economy’, p. 93; LeBaron and McCulloch, ‘Floating, fixed, or super-fixed?’, p. 34. With reference to Africa in particular: Herbst, *States and Power*, pp. 201-3.

¹¹ Bordo and Flandreau, ‘Core, Periphery, Exchange Rate Regimes and Globalization’, p. 4.

era through the interwar period provides an opportunity to assess the costs and benefits of different regimes for African economies in the absence of formal colonial rule.

Founded by American missionaries as for the settlement of freed slaves, Liberia declared itself a Republic in 1847. From the year of its foundation it issued its own currency, the Liberian dollar. Repeated fiscal crises during the nineteenth century led to the depreciation of the Liberian dollar, and the adoption of sterling as the country's de facto currency. As in many developing countries today, Liberia's adoption of a foreign currency – in this case sterling rather than the dollar - began with the substitution of sterling as the medium of exchange and store of value, first by private actors and then by the Liberian state, leading to a system of de facto 'dollarization'.¹² Sterling was replaced by the U.S. dollar in 1943, as the devaluation of sterling relative to the dollar raised the cost of servicing Liberia's increasingly dollar-denominated debts. This shift reflected, on a small scale, the rising dominance of the dollar and the expansion of U.S. interests in Africa.

Data scarcity makes the inclusion of Liberia in the datasets used by larger-scale studies of exchange rate systems impossible. Like many peripheral economies, Liberia lacked a central bank, and therefore had no central system for collecting monetary and financial data.¹³ Further, the destruction of large portions of Liberia's national archives during the civil war of the 1990s has hindered historical research.¹⁴ As a result, Liberia

¹² Duffy et al., 'Dollarization traps', pp. 2073-4. This paper follows the convention of using 'dollarization' to refer to the adoption of any foreign currency. In Liberia's case, this was sterling until 1943, followed by the U.S. dollar.

¹³ Eichengreen, *Globalizing Capital*, pp. 38-9; World Bank, *Economy of Liberia*, p. 5.

¹⁴ For more detail on the current state of Liberia's archival resources, see Osborne, 'A Note on the Liberian Archives'.

has been neglected in much of the literature on West African economic history.¹⁵ However, it is possible to piece together the story of Liberia's adoption of first sterling and then the U.S. dollar from official records and correspondence produced by the Liberian, U.S. and British governments. The records of the Bank of British West Africa, which acted as the state bank of the Liberian government during the inter-war period, and the Bank of England also provide insights into Liberia's policies. This paper uses these records to examine the options available to Liberia, and the costs and benefits of adopting a foreign currency. Evidence from Liberia suggests that, as in developing countries today, the choice between different exchange rate regimes was heavily constrained by political and financial realities, even without formal colonial domination.

The next section (I) provides a brief review of Liberia's early economic and political history in order to illustrate its motives for establishing an independent currency as well as the challenges it faced in maintaining it. Section II examines Liberia's efforts to manage its own currency and the conditions which led to de facto dollarization. The following section (III) assesses the costs and benefits of dollarization in Liberia in the inter-war period. In section IV the transition from sterling to the U.S. dollar provides an empirical illustration of the challenges of changing currencies once de facto dollarization has occurred. Section V uses the case of Liberia in comparison with colonized African countries to draw some tentative conclusions on the impacts of colonialism for financial development in Africa.

I

¹⁵ Hopkins notes that the regional focus of his *Economic History of West Africa* allows him to incorporate Liberia, but the country's history is not addressed in any great detail.

Liberia's foundation as an independent republic in 1847 came at a time of increased commercial and political interest in West Africa among the imperial powers of Europe. The young country struggled from the beginning to maintain its sovereignty amidst the nineteenth-century 'Scramble for Africa'.¹⁶ However, this struggle for survival created severe fiscal and economic challenges, which characterized most of the first century of the Republic's existence. The collapse of the Liberian dollar was one illustration of the difficulties facing independent developing countries during this period.

From its foundation the government of Liberia was dominated by Americo-Liberian settlers, primarily freed slaves from the United States but also including immigrants from Barbados and re-captives, or Africans freed from slave ships captured by the U.S. Navy.¹⁷ Like its neighbour Sierra Leone, Liberia was founded 'by sponsors who were seeking a distant receptacle for undesirables of a different skin colour', in Liberia's case the Society for the Colonization of Free People of Color of America (American Colonization Society).¹⁸ Unlike its neighbour, however, Liberia did not become a formal colony of its founders. Instead, Americo-Liberian settlers were placed in charge of the administration of the territory in 1841, and Liberia was declared an independent republic in July 1847.¹⁹ The following year a treaty was signed with the United Kingdom, recognising Liberia as an independent state. Treaties with France, Belgium, Denmark and the Hanseatic Republics followed shortly thereafter.²⁰

¹⁶ Buell, *Liberia*, p. 1; Young, *The African colonial state*, p. 89.

¹⁷ Allen, 'Liberia and the Atlantic World', pp. 29-30.

¹⁸ Fyfe, 'Freed slave colonies in West Africa', p. 189. See also Allen, 'Liberia and the Atlantic World', pp. 19-21.

¹⁹ Clapham, *Liberia and Sierra Leone*, p. 7.

²⁰ U.S. Senate, *Affairs in Liberia*, p. 6.

The dominance of Americo-Liberian settlers has led historians to compare Liberia's governance with the colonial administration of the European powers in the region.²¹ The methods they used to extend Liberia's boundaries were similar to those used in colonies, notably through the purchase of land from African communities in (often questionable) transactions or through treaties with indigenous rulers establishing landownership.²² New territory in the interior was also claimed through 'discovery' and conquest.²³ Dorward writes that Liberia's indigenous population experienced 'similar processes of confrontation, acculturation and response' as the indigenous populations of neighbouring colonies.²⁴

The settlers' lack of legitimacy with the African population had severe consequences for its political stability and budget. The Liberian government had to devote considerable resources to putting down rebellions by indigenous African groups.²⁵ The costs of conquest were a major feature of early colonial spending across Africa. However, in colonial territories these costs were borne largely, if not entirely, by metropolitan funds.²⁶ Liberia initially received help in these efforts from the U.S. Navy, but following the beginning of the U.S. civil war in 1861, American interest in Liberia waned. The U.S. would not become Liberia's most important trading partner until after 1926, when a large concession was granted to the Firestone Rubber Company.²⁷ Through much of the late nineteenth and early twentieth centuries, the Liberian government had to rely only on its own resources.

²¹ Akpan, 'Black imperialism', p. 219.

²² Liebenow, *Liberia*, pp. 17-9. See also Bayart, *The State in Africa*, pp. 144-5.

²³ *Ibid.*, p. 20.

²⁴ Dorward, 'British West Africa and Liberia', p. 454.

²⁵ Liebenow, *Liberia*, p. 53.

²⁶ Gardner, *Taxing Colonial Africa*, pp. 34-6; 228-9.

²⁷ Memorandum, 'Liberia: Trade with the United Kingdom, 7 March 1962, in Bank of England OV135/2; U.S. Senate, *Affairs in Liberia*, p. 7.

Tensions with indigenous African groups were heightened by pressure from the two leading imperial powers in Africa, Britain and France. Both proposed establishing a protectorate over Liberia, as part of a broader competition to extend their own influence in the region.²⁸ The expansion of colonial interests on either side of Liberia led to persistent diplomatic conflicts over the country's borders.²⁹ Under the terms of the Berlin Act, Liberia needed to justify its occupation of its territory by establishing what the Act referred to as 'effective administration'.³⁰ The problem of financing the extension of its administration was at the heart of Liberia's struggle to maintain its independence. An essay on Liberian political economy presented at the National Fair in Monrovia in 1858, written by future president J. S. Payne, observed that 'the extension of the jurisdiction [sic] of the government and the fair acquisition of territory are much dependant upon the state of economy within'.³¹

The Liberian government had few resources with which to meet these challenges. In the early days of the Republic, some Americo-Liberians had amassed considerable wealth through trade with the interior and along the coast. As the nineteenth century progressed, however, they struggled to compete with European traders.³² Some foreign observers attributed the small volume of Liberia's trade to restrictions on the trade of non-Africans to major ports (though Payne's essay lamented the failure of the Liberian legislature to protect Liberian merchants from foreign competition).³³ Whatever the

²⁸ Colonial Office memorandum, November 1891, in TNA CO 879/35.

²⁹ Foley, 'British policy in Liberia'; Liebenow, *Liberia*, pp. 22-3; U.S. Senate, *Affairs in Liberia*, pp. 8-10, 14-16.

³⁰ Liebenow, *Liberia*, p. 57; Sanderson, 'The European Partition of Africa', p. 133.

³¹ Payne, 'A prize essay on political economy as adapted to the Republic of Liberia', pp. 14-5. See also Steadman, 'Report on the Fiscal System', p. B-1.

³² Liebenow, *Liberia*, pp. 14-5; Syfert, 'Liberian coasting trade'.

³³ Johnston, *Liberia*, p. 258; Payne, 'A prize essay on political economy as adapted to the Republic of Liberia', p. 56.

reason, Liberia struggled through the late nineteenth and early twentieth centuries to find an export industry which could support the expanding administration. Coffee production was initially profitable but suffered through growing competition from overseas.³⁴ Palm kernels and palm oil were also exported in relatively large quantities.³⁵ Figure 1 shows the value of principal exports from Liberia in 1908.

Fig. 1 Principal Exports from Liberia, 1908

Source: Parks, *Report on the Trade and Commerce of Liberia 1909*.

Like much of the rest of West Africa, both then and today, Liberia's public revenue was primarily derived from trade taxes.³⁶ Liberia's declaration of independence in 1847 was largely in response to the refusal of British traders to pay trade taxes when trading in Liberian ports. In 1858 it was estimated that trade taxes provided two thirds of Liberia's ordinary revenue.³⁷ As in the West African colonies, trade taxes proved to be vulnerable to external changes in the value and volume of imports and exports.³⁸ The fiscal difficulties caused by an unstable revenue source were compounded by financial mismanagement. In 1864 a commission appointed to investigate the public finances reported 'much irregularity and looseness in keeping the public accounts'.³⁹ These challenges were central to the depreciation of the Liberian dollar and the substitution of British sterling, discussed in the next section.

³⁴ Allen, 'Liberia and the Atlantic World', pp. 41-3; U.S. Senate, *Affairs in Liberia*, p. 25.

³⁵ Parks, *Report on the Trade and Commerce of Liberia 1909*, pp. 6-7.

³⁶ For more on the importance of trade taxes in colonial West Africa, see Gardner, *Taxing Colonial Africa*, pp. 41-6. For a contemporary view, see Azam, *Trade, Exchange Rates and Growth*, pp. 11-12.

³⁷ Syfert, 'Liberian coasting trade', pp. 226-8.

³⁸ Gardner, *Taxing Colonial Africa*, p. 64.

³⁹ Quoted in Boley, *Liberia*, p. 32.

II

Liberia in the nineteenth and early twentieth centuries exhibited many of the features common to developing countries today, which limit the real choices available to them.⁴⁰ As this section will show, currency substitution was widespread, and by the early twentieth century had developed into a system of de facto dollarization. The official unit of account continued to be a Liberian dollar valued at a notional fixed rate of 4.80 with sterling. However, commercial accounts were denominated in sterling.⁴¹ No data exist on the proportion of assets held in sterling by Liberians, but by 1914 sterling was in practice the only currency accepted for the payment of taxes and government salaries.⁴² It also became the most widely used store of value, largely owing the dominance of British financial institutions in West Africa.

The issue of the Liberian dollar from 1847 was part of the wider effort to facilitate economic growth and establish Liberia's sovereignty in the region. How widely the new currency circulated outside Monrovia and other trading ports is questionable: as in much of the rest of West Africa, commodity currencies continued to be used into the twentieth century outside urban areas.⁴³ Small-denomination copper coins were minted shortly after independence, followed by larger denomination coins.⁴⁴ A new paper currency, in the form of two-dollar notes, promising payment in gold, was issued from the 1860s.⁴⁵

⁴⁰ The features of developing economies key to exchange rate system choice are summarized in Calvo and Mishkin, 'Mirage of Exchange Rate Regimes', 103-6.

⁴¹ 'Liberia's currency', 23 August 1940, in Bank of England, OV 67/1.

⁴² Constantine Graham to Sir John Simon, 30 November 1932, in U.K. National Archives (TNA) CO 267/637.

⁴³ Cox-George, *Finance and development in West Africa*, pp. 94-110; Johnston, *Liberia*, p. 398.

⁴⁴ Brown, 'Economic History of Liberia', pp. 337-8.

⁴⁵ U.S. Legation, Monrovia, to U.S. Department of State, 30 May 1875, in *Foreign Relations of the United States (FRUS) 1875 vol. II*, p. 831.

Payne had urged caution in the issue of paper money in his 1858 essay, citing the risk that excessive issues could undermine their value.

If the government puts in circulation a paper medium – negotiable only in the country – and promises to redeem it with specie at its treasury department, it certainly should know, at any moment, how much of this currency is in circulation, and should keep itself prepared to redeem it. It should be cautious in circulating it, to have at least a strong probability of a sufficiency of specie to redeem it. Otherwise, some citizen, presuming upon the good faith of the government, may suffer embarrassment. He may have disposed of valuable property for this medium, expecting to engage in some lucrative enterprise, but, to his astonishment, inconvenience and injury, he finds it cannot be redeemed! His faith in the monetary matters of the government wanes at this moment.⁴⁶

This passage proved prophetic. Within just a few years the Liberian paper currency had depreciated in value, as unbacked notes were issued to facilitate spending by the Liberian government. Ironically, a particularly notorious incident occurred during Payne's presidency, just ten years after he wrote his essay.⁴⁷ Payne's change of heart suggests that the weakness of Liberia's fiscal institutions left the government with a limited range of policy choices.

In order to redeem the notes issued during the Payne presidency, as well as to help fund development efforts, Liberia raised its first loan in London in 1871.⁴⁸ The loan of £100,000 was denominated in sterling and secured with future customs receipts.⁴⁹

⁴⁶ Payne, 'A prize essay on political economy as adapted to the Republic of Liberia', p. 80.

⁴⁷ U.S. Legation, Monrovia, to Department of State, 30 May 1875, in *FRUS 1875 vol. II*, p. 831.

⁴⁸ American Legation, Monrovia, to U.S. Department of State, 30 May 1875, in *FRUS 1875 vol. II*, p. 831.

⁴⁹ Brown, 'Economic History of Liberia', pp. 333-4.

However, a substantial portion of the funds were misappropriated by both the parties involved in the negotiation of the loan and then-President Roye, who was deposed shortly afterwards.⁵⁰ By 1874, the Liberian government had stopped paying the interest on the loan.⁵¹ Payment of interest on this loan was not resumed until 1898.⁵²

With the failure of the loan to resolve its immediate financial problems, the Liberian government continued to issue unbacked paper notes. No systematic data on their value have survived, but the final decades of the nineteenth century saw a range of efforts to maintain their value. In 1878 the Liberian legislature authorized the burning of a portion of the paper currency. President Gardner reported to the legislature in December that, as a result, paper currency was ‘nearly at par value with gold coin’. He emphasized that any further attempt to issue currency would result in depreciation, and advised that Liberians should ‘endure like good soldiers the present hardships, as better and more glorious days are ahead’.⁵³

Liberia’s struggle to maintain the value of its currency continued through the 1880s. In 1880, the government issued ten-year domestic bonds at six per cent to replace the paper currency still in circulation. Three years later, a law was passed providing for the removal from circulation of half of the paper currency paid into the Treasury. It also instructed the Treasury to hold a tenth of the gold coin it received in a fund to meet foreign payments. In 1884 a further law was passed mandating that domestic creditors should be paid two-thirds in gold and one-third in paper – Brown estimates that this approximated to a 25 per cent reduction in the nominal value of their claims. These

⁵⁰ U.S. Legation, Monrovia, to U.S. Department of State, 30 October 1871, in *FRUS 1872*, pp. 324-6.

⁵¹ Brown, ‘Economic History of Liberia’, p. 334; Johnston, *Liberia*, p. 259.

⁵² U.S. Senate, *Affairs in Liberia*, p. 20.

⁵³ Statement of President A. W. Gardner to the Legislature, 12 December 1878, published in *FRUS 1879*, p. 704.

efforts were undermined by a further issue of paper money in 1893 to meet the costs of a revolt of the Grebo, as a result of which the value of the paper currency fell 75 per cent below par.⁵⁴

By the early twentieth century, repeated fiscal crises along with political instability and the mismanagement of public funds had undermined the credibility of the Liberian state and the Liberian dollar. At the same time, substantial supplies of British sterling were flowing into West Africa due to expansion of trade and the establishment of British colonies in the region. Figure 2 shows the imports of British silver coin into West Africa through the late nineteenth century. By 1910, the quantity of British silver coin issued in West Africa exceeded the quantity issued within Britain. There was therefore an ample supply of British sterling coinage available to Liberians.

Fig. 2 Imports of British Silver Coin into West Africa

Source: *Report of the Departmental Committee Appointed to Inquiry into Matters Affecting the Currency of the British West African Colonies*, p. 6.

McKinnon notes that in small areas with currencies that are not pegged to currencies of larger areas, the liquidity value of the small area's currency will be limited and 'domestic nationals will attempt to accumulate foreign bank balances'.⁵⁵ As a large share of Liberia's imports came from Britain in the late nineteenth century, cash holdings in sterling would have provided much greater liquidity value than Liberian paper

⁵⁴ Brown, 'Economic History of Liberia', p. 335.

⁵⁵ McKinnon, 'Optimum currency areas', p. 722.

currency.⁵⁶ The reliance of the elite on imported foodstuffs meant the external value of the currency in circulation was crucial for many Liberians.⁵⁷ Further, a large number of Liberians – particularly the Kru – were employed on British steamers operating on the West African coast, and received their earnings in British coin.⁵⁸

Liberia's financial position did not improve in the early twentieth century. With its revenue partly paid in depreciated paper currency as well as unredeemable drafts and checks, it struggled to service its foreign debts.⁵⁹ Bordo and Flandreau argue that peripheral countries in the gold standard era had to choose between super hard fixed exchange rates and restricting foreign borrowing because devaluations in local currency led to debt crises.⁶⁰ Like developing countries today, Liberia was unable to borrow in its own currency and therefore had to face the exchange risk of borrowing in foreign currency.⁶¹ As a result of Liberia's persistent inability to service its loans, lenders began to demand political concessions in return for further loans. British officials were placed in charge of customs collections as security for a second loan raised in London in 1906, also denominated in sterling.⁶²

This was insufficient to resolve Liberia's financial problems, and it was soon looking for further loans. After the failure of the two British loans of 1871 and 1906 to resolve its financial difficulties, the Liberian government next turned to the U.S.

⁵⁶ Liebenow, *Liberia*, p. 17.

⁵⁷ In 1912 an American official reported that 'living expenses are perhaps greater here than anywhere else in the world' owing to the reliance on imported food. See U.S. Military Attaché to U.S. Legation, Monrovia, 9 October 1912, in *FRUS 1912*, p. 666.

⁵⁸ Foreign Office to Colonial Office, 24 January 1914, in TNA T1/11612. For more on the Kru, see Allen, 'Liberia and the Atlantic World', p. 24.

⁵⁹ U.S. Senate, *Affairs in Liberia*, p. 21.

⁶⁰ Bordo and Flandreau, 'Core, Periphery, Exchange Rate Regimes and Globalization', p. 6.

⁶¹ Limited credibility of domestic monetary policy makes lenders uncertain about the real value of domestic currency debts. See Jeanne, 'Why do emerging economies borrow in foreign currency?'.
⁶² U.S. Senate, *Affairs in Liberia*, p. 20.

government for help. At the request of the Liberian government a commission was appointed by U.S. President Taft in 1909 to investigate Liberia's finances.⁶³ In 1910 the commission's report noted that in addition to its foreign debt of just over \$900,000 (£187,500), Liberia had accumulated domestic debt of \$352,205 (£73,376), approximately equivalent to a year's revenue.⁶⁴ A further loan of \$1,700,000 (£354,000), known as the refunding loan, was issued in 1912. The funds were raised in London, Amsterdam and Hamburg, and the loan was managed by the National City Bank of New York.⁶⁵ Unlike the previous two loans, the 1912 loan was denominated in U.S. dollars, signifying the start of increasing U.S. involvement in Liberia in the inter-war period and beyond.

As a condition of the loan, a Customs Receivership comprised of representatives from the UK, France and Germany under the leadership of a Receiver of Customs appointed by the U.S. government were placed in charge of collecting and managing revenue earmarked for loan service payments, referred to as the assigned revenue. This included customs revenue (which remained the most important source of tax revenue), revenue from rubber export tax, and hut tax revenue.⁶⁶ Revenue from other sources remained under the control of the Liberian government.⁶⁷ As soon as it was established the Receivership issued a circular stating that 'all customs dues upon imports and export are payable solely in current gold, and no document or evidence of indebtedness of any kind whatsoever will be received in lieu thereof.'⁶⁸ In practice, the medium of payment

⁶³ Boley, *Rise and Fall of the First Republic*, pp. 36-7.

⁶⁴ U.S. Senate, *Affairs in Liberia*, p. 22.

⁶⁵ Cooper to Harcourt, 26 January 1915, in TNA T1/12212.

⁶⁶ Cooper to Harcourt, 26 January 1915, in TNA T1/12212.

⁶⁷ BBWA to Foreign Office, 12 February 1918, in TNA T1/12212.

⁶⁸ Administrative Circular No. 1 of the Customs Receivership, 26 November 1912, *FRUS 1912*, p. 694.

was principally British coin.⁶⁹ In 1919 it was reported to the Foreign Office that ‘although the Budget of the Republic is framed in Dollars the currency in use is almost entirely British Gold and Silver Coin, which has displaced Liberian coin, the minting of which ceased some years ago’.⁷⁰

The refunding loan allowed Liberia to repay its earlier debts, but financial mismanagement continued to create fiscal difficulties.⁷¹ The situation worsened considerably with the outbreak of World War I. When Liberia joined the allied cause and severed its relations with Germany, its trade and finances suffered greatly.⁷² Prior to World War I, Germany, along with Britain, had been Liberia’s major trading partner.⁷³ Assigned revenues decreased from \$486,639 (£100,000) in 1913 to \$185,715 (£39,000) in 1916.⁷⁴ In 1915 an official with the American legation in Monrovia noted that ‘the Government is undoubtedly very hard pressed. How far it can drag along, in its present manner of going, drawing behind it a burden that increases rapidly as the weeks go by, is an indeterminate question’.⁷⁵ By May 1916 the Liberian government had given notice to the National City Bank of New York that it proposed to suspend payments on the interest and sinking fund for the 1912 loan.⁷⁶ Two years later it was reported to the British Foreign Office that in addition to its external liabilities of \$1,458,000 (£300,000), Liberia

⁶⁹ Leslie Couper (BBWA) to Sir Walter Langley (Foreign Office), 22 January 1914, in TNA T1/11612.

⁷⁰ Bank of British West Africa to Foreign Office, 3 November 1919, in TNA T160/887.

⁷¹ Reed Paige Clark, General Receiver of Customs, to National City Bank of New York, 17 September 1914, in TNA T 1/12212.

⁷² R. Sperling (Foreign Office) to McFadyean (Treasury), 26 January 1919, in TNA 1/12212.

⁷³ Liebenow, *Liberia*, p. 17.

⁷⁴ BBWA to Foreign Office, 12 February 1918, in TNA T 1/12212.

⁷⁵ U.S. legation, Monrovia, to U.S. Secretary of State, 11 May 1915, *FRUS* 1915, p. 639.

⁷⁶ U.S. legation, Monrovia, to U.S. Secretary of State, 13 June 1916, in *FRUS* 1916, p. 459.

had accumulated internal debts of nearly \$400,000 (£83,000), part of which had been accrued through the partial (50 per cent) payment of government salaries.⁷⁷

During the turbulent war years, the Liberian government also turned to the only bank operating within its borders for financial assistance. The Bank of British West Africa (BBWA) was the government banker to the four British colonial administrations in West Africa and obtained the sole right to ship silver coin to West Africa.⁷⁸ After the establishment of the West African Currency Board in 1912, the Bank acted as its agent in British territories in West Africa. The BBWA's first extension into Liberia was in 1905, when it hired W.D. Woodin & Co. as its agents at Monrovia. Five years later, the bank opened its first branch in Monrovia. A second branch was opened at Cape Palmas in 1927.⁷⁹ Agency agreements were signed with trading companies, such as the Oost Afrikaansche Compagnie in Grand Bassa (a major port), for operations outside the capitol.⁸⁰

As in the British colonies, the Bank's major customer in Liberia was the Liberian government, and by 1916 the BBWA officially became the state bank.⁸¹ From 1918 all government salaries were paid through the bank in an effort to reduce losses of public money through theft.⁸² The BBWA also provided the Liberian government with an overdraft during World War I. The Bank was asked to lend the Liberian government \$9,000 on the first day of each month. All government revenue was to be collected by the Bank in repayment, but given the depressed state of Liberia's revenue the Bank

⁷⁷ Bank of British West Africa to U.K. Foreign Office, 12 February 1918, in TNA T 1/12212.

⁷⁸ Fry, *Bankers in West Africa*, pp. 23-6; Uche, 'Foreign banks', 673.

⁷⁹ 'Chronology of events', in LMA CLC/B/207/MS28816/001

⁸⁰ For full text of Grand Bassa agency agreement, see LMA CLC/B/207/MS28536.

⁸¹ Memorandum of Agreement between the Government of the Republic of Liberia and the Bank of British West Africa, 4 February 1916, in TNA T 1/12212.

⁸² BBWA to Foreign Office, 4 September 1918, in TNA T1/12212.

anticipated a monthly deficit of \$5,000.⁸³ The Bank, anxious about the potentially unlimited liability which could be generated by this arrangement, asked the British government to guarantee the loan. When the British government refused, a cap of \$100,000 (or £20,000) was imposed on the debt.⁸⁴

The terms of the bank's agreements with the Liberian government illustrate the extent to which sterling had replaced the Liberian dollar as a store of value by 1916. The agreement stated that while the Bank would accept Liberian silver and copper coin as part of Government revenues, the government would be required to 'take back the whole or any portion desired by the bank when drawing from its account'.⁸⁵ The BBWA was reluctant to accumulate balances of Liberian currency. By the outbreak of World War I there were few uses for Liberian currency, which could not be used for the payment of customs tariffs or other assigned revenues.

Liberia fit many of the characteristics which are today thought likely to lead to dollarization.⁸⁶ The Liberian dollar's history of inflation combined with dependence on British imports provided private actors with a strong incentive to deal in sterling rather than local currency. The state had similar incentives, mandating the payment of taxes in sterling so that it could service its debts, denominated in foreign currency. The next section will examine the costs and benefits to Liberia of adopting sterling, focusing particularly on the changes which led to its eventual adoption of the U.S. dollar in 1943.

III

⁸³ Leslie Couper, BBWA, to Sir Walter Langley, Foreign Office, 13 December 1916, in TNA T 1/12212.

⁸⁴ BBWA to Foreign Office, 29 October 1917, in TNA T1/12212. See also Memorandum of Agreement between the Government of the Republic of Liberia and the Bank of British West Africa, 21 February 1917, in *FRUS 1917*, p. 889.

⁸⁵ Memorandum of Agreement between the Government of the Republic of Liberia and the Bank of British West Africa, 4 February 1916, in TNA T 1/12212.

⁸⁶ Alesina and Barro, 'Dollarization', p. 384.

De facto dollarization resolved several problems for Liberia. It reduced transaction costs for Liberians purchasing imports from Britain, which are largest in small, open economies.⁸⁷ Further, it allowed the Liberian government to collect most of its tax revenue in the same currency in which its debt was denominated (or, from 1912, in another gold standard currency). It is difficult to measure the benefit to Liberia relative to the costs of abandoning its monetary sovereignty. In their study of Mexico in the late twentieth century, Cooley and Quadrini conclude that ‘the cost of losing the ability to react to shocks is much smaller than the potential losses or gains deriving from the reduction of the long-term inflation and interest rate’.⁸⁸ Liberia’s difficulties in maintaining the value of the Liberian dollar suggest that this conclusion is likely to be true there as well. However, dollarization also came with costs, which became increasingly apparent as Liberia’s connections with the U.S. deepened during the inter-war period.

The first difficulty was that Liberia’s supply of circulating currency depended on the willingness of the British government to continue allowing the export of silver coin to West Africa. By 1910 this had become a matter of some concern for the British government. While it was the dominant circulating medium in West Africa, silver coin was a token currency in Britain, and not backed by gold. Its value was managed by a careful judgement of supply and demand, which could be undermined if economic crisis in West Africa led to substantial quantities of British silver flowing back to Britain.⁸⁹ To avoid this possibility, a separate West African currency was introduced, managed by the West African Currency Board (WACB). The WACB was allowed to repatriate

⁸⁷ Fischer, ‘Seigniorage and the case for a national money’, p. 296.

⁸⁸ Cooley and Quadrini, ‘Costs of losing monetary independence’, p. 372.

⁸⁹ S. Armitage-Smith to B. Blackett, 27 September 1919, in TNA T160/887.

substantial quantities of British coinage, as it increased the quantity of West African issues. Figure 3 shows the quantity of repatriated sterling alongside WACB issues.

Fig. 3 WACB Currency Issues and Repatriated British Silver Coin

Source: West African Currency Board, *Annual Reports*.

The introduction of the new WACB currency prompted efforts in Liberia to demonetize foreign currency and return to the Liberian dollar. A bill imposing heavy penalties on anyone caught importing foreign currency, and authorising a new issue of Liberian coinage, was put before the Liberian legislature and passed in 1914. The bill was originally intended to target only the British West African coinage, but the final version included all foreign currency.⁹⁰ Objections to British West African currency were two-pronged. Firstly, there was limited confidence in the value of WACB currencies relative to sterling. This was not unique to Liberia – British merchant interests had expressed similar concerns when the introduction of a special colonial coinage was first proposed in 1899.⁹¹ The Liberian president had been concerned about the acceptance in England of British West African currency, asking the British Consul-General ‘what good a pocketful of this new money would be to anybody landing in Liverpool or London’. Further, the President was concerned about rumours that banks would only receive British West African currency at substantial discount. At the President’s request, the consul produced a letter from the manager of the BBWA’s Monrovia branch, stating that the currency could be changed into British sterling in London or Liverpool, and that the Bank would receive

⁹⁰ British Consul-General, Monrovia, to Foreign Office, 9 February 1914, in TNA T1/11612.

⁹¹ Herbst, *States and Power*, pp. 206-7. See also Helleiner, *Making of National Money*, pp. 184-5.

it at par value.⁹² Secondly, they perceived a threat to Liberian sovereignty in the new currency. The manager of the BBWA's Monrovia branch reported to the London office that he had met with the President of Liberia, who had told them 'that the people did not want any coins bearing the description "British West Africa" in Liberia. They do not mind the Imperial coins so much, but they strongly objected to the Colonial coins, and fancy that an attempt is being made to gradually "British-ise" Liberia'.⁹³

Ultimately, the bill was suspended under British and American pressure.⁹⁴ The objections of the British government were based on the fact that the refusal of Liberians to accept the new WACB currency might interfere with its acceptance in British West Africa, and that the passage of the bill might hinder British trading interests in the Republic.⁹⁵ By the end of the War, WACB coins were accepted in payment of customs duties, alongside imperial silver.⁹⁶ However, the Liberian government raised objections to the introduction of WACB currency notes similar to the claims made in 1912 regarding WACB coin. In the President's statement to the legislature in 1919, he equated acceptance of the notes with colonial rule, stating that 'it seems as if the Board as included in this proportion of the British Empire the Republic of Liberia, and thinks that these Notes, designed for British Colonies, ought, without question, to circulate in Liberia'.⁹⁷

The issue of WACB notes in Liberia was the result of shortages in sterling silver coin following World War I, when the BBWA was unable to meet demands for coin

⁹² British Consul-General, Monrovia, to Foreign Office, 9 February 1914, in TNA T1/11612.

⁹³ Monrovia Branch to Head Office, 19 January 1914, in TNA T1/11612.

⁹⁴ British Embassy, Washington D.C. to Foreign Office, 12 January 1914; Couper to Sir Walter Langley, Foreign Office, 22 January 1914, and; Board of Trade to Foreign Office, 1914, in TNA T1/11612.

⁹⁵ Treasury to Foreign Office, 31 January 1914, in TNA T1/11612.

⁹⁶ Bank of British West Africa to Foreign Office, 3 November 1919, in TNA T160/887.

⁹⁷ 'Message of the President of the Republic of Liberia delivered to the Honorable the Legislature, December 16th, 1919', in TNA T160/887.

generated by the recovery of trade.⁹⁸ In April 1920 the general manager of the BBWA wrote to the Treasury asking for a licence to ship £30,000 in U.K. silver to Liberia, noting that the Bank had arrived ‘at a difficult position’, as the amount of silver coin was ‘now less than our obligations, and it is in the power of any customer to demand legal tender and refuse notes’.⁹⁹ The Treasury’s response was sympathetic, but stated that ‘we have found it necessary for the present to refuse export of silver coin practically without exception’.¹⁰⁰ By May 1920 the Liberian Rubber Corporation had received a cable from its Agent in Liberia saying that ‘he cannot pay his labourers owing to the inability of the Bank to supply coin’.¹⁰¹ The Bank’s dwindling reserves of silver coins prompted worries about a potential run on the Bank in Monrovia.¹⁰² The local manager warned that unless fresh supplies of silver were received the Bank would be forced to suspend payment in a few weeks. A particular cause for concern was the payment of government salaries, which constituted the ‘greatest drain’ on the Bank’s silver reserve, but the Bank was aware the stopping payment would ‘precipitate a crisis’.¹⁰³ The Liberian government was notified that the Bank would cease all business in which paper was not accepted in full.¹⁰⁴ A later investigation discovered that British silver coin was exported without permission of the British government.¹⁰⁵

Given the limitations in the surviving data, it is difficult to measure the overall impact of temporary currency shortages like the one described above. As noted above,

⁹⁸ Acting Consul-General, Monrovia, to Foreign Office, 18 September 1919, in TNA T160/887.

⁹⁹ BBWA to Treasury, 24 April 1920, in TNA T160/887.

¹⁰⁰ Treasury to BBWA, 28 April 1920, in TNA T160/887.

¹⁰¹ BBWA to Treasury, 10 May 1920, in TNA T160/887.

¹⁰² Consul-General, Monrovia, to Foreign Office, 26 May 1920, in TNA T160/887.

¹⁰³ BBWA, Monrovia, to BBWA, London, 4 May 1920, in TNA T160/887.

¹⁰⁴ BBWA to Secretary of State, Republic of Liberia, 4 May 1920, in TNA T160/887.

¹⁰⁵ Royal Mint to Treasury, 20 January 1937 and Royal Mint to Bank of England, 27 January 1937, in TNA MINT 20/1590.

export industries in Liberia were slow to develop and surviving records indicate there were limits to the degree of monetization, particularly in rural areas. The 1916 agreement with the BBWA also included instructions on how to account for the payment of taxes in goods rather than cash.¹⁰⁶ Currency shortages may have contributed to the continued use of commodity currencies – the Financial Adviser to the Liberian government reported in 1937 that owing to limited importations of British silver coin, both British alloy coin and ‘native “iron” money’ were in use.¹⁰⁷

The level of monetization in the interior would undergo a dramatic change with the establishment of the Firestone Rubber Plantation, which not only employed a large labour force of 30,000 by the 1940s, but also encouraged the independent production of rubber by African smallholders.¹⁰⁸ The Firestone Tire and Rubber Company became interested in Liberia when the British government took steps to increase the price of rubber following the global slump in commodity prices in 1921 by limiting the quantity of rubber exported from British Malaya.¹⁰⁹ There was a general fear in the U.S. following World War I that Britain and the other imperial powers would adopt policies which would restrict U.S. access to raw materials from their colonial territories.¹¹⁰ Harvey Firestone saw the Stevenson Act as ‘a threat to the industry’s supply of rubber’, and took steps to secure alternative supplies.¹¹¹ In 1925 the Liberian government concluded an agreement with Firestone which gave the company a 99 year lease on an experimental rubber plantation near Monrovia and a 99 year lease on a million acres to be used for

¹⁰⁶ Memorandum of agreement between the government of the Republic of Liberia and the BBWA – 4 Feb 1916, in TNA T 1/12212

¹⁰⁷ Extract of report enclosed in letter from the Colonial Office to the Treasury, 27 January 1937, in TNA T160/887.

¹⁰⁸ Buell, *Liberia*, p. 49.

¹⁰⁹ Stevenson, *Supplementary Report upon the Present Rubber Situation*.

¹¹⁰ Bernhardt, *The Tariff Commission*, p. 34.

¹¹¹ Chalk, ‘Anatomy of an Investment’, pp. 14-16.

rubber production.¹¹² Rubber rapidly became Liberia's dominant export. Figure 4 compares Liberia's principal exports from 1938 with the figures from 1908 given in Figure 1.

Fig. 4 Principal Exports from Liberia, 1908 and 1938

Parks, *Report on the Trade and Commerce of Liberia 1909*; Report on the Financial Operations of the Republic of Liberia for the year 1939, in TNA FO 371/24444.

Alongside the Firestone concession, an agreement was made with the Finance Corporation of America, a subsidiary of Firestone, for a new loan of \$5,000,000 U.S. dollars to be managed by the National City Bank of New York.¹¹³ The 1926 loan was wholly managed by U.S. interests, in contrast to the 1912 loan which involved the collaboration of several countries.

Contributing to the expansion of U.S. interests in Liberia was a major change in Liberia's banking sector. The BBWA, which had functioned as the state bank of Liberia since 1916, closed its Liberian branches in September 1930.¹¹⁴ The Bank's stated reason for closing was that the limited sanitation facilities in Monrovia presented a danger to the bank's staff.¹¹⁵ However, officials in the British government suspected that the real reason was limited profitability.¹¹⁶ The closure of the Liberia branch was one of a

¹¹² Chief of the Division of Western European Affairs to the Secretary of State, 12 January 1926, in *FRUS 1926*, p. 503. Firestone's planned improvement of the harbour was eventually abandoned on cost grounds – see Boley, *Rise and Fall of the First Republic*, p. 41.

¹¹³ The full text of the loan agreement is published as Appendix 6 of Buell, *Liberia*.

¹¹⁴ Foreign Office memorandum, 14 June 1930, in TNA CO 267/630/8.

¹¹⁵ BBWA Monrovia Branch to Head Office, 20 June 1930, in LMA CLC/B/207/MS28698; BBWA to Foreign Office, 22 January 1930, in TNA CO 267/630/8.

¹¹⁶ Foreign Office memorandum, 14 June 1930, in TNA CO 267/630/8.

number of branch closures by the bank during the 1930s – from a pre-war peak of 55 branches in 1929, the number of branches had decreased to 39 by 1941.¹¹⁷

The departure of the BBWA left Liberia without any banking services until November 1930, when a Firestone subsidiary – the United States Trading Company (Banking Department) – opened its doors.¹¹⁸ The new bank was an ad-hoc arrangement, designed to ensure that Liberia did not have to go entirely without banking services. The U.S. Trading Company already operated in Liberia, selling provisions to Firestone staff. Its banking branch was intended to serve primarily as a depository for government revenue, in order to safeguard payments servicing the Firestone loan. Its sole branch was in Monrovia, in the same building that had been occupied by the BBWA. Like its predecessor, it made arrangements for the Oost-Afrikaansche Compagnie to act as its agents outside Monrovia.¹¹⁹ This new bank eventually became the Bank of Monrovia, which by the 1960s served as both the banker to the state and clearing bank to the other banks operating in the country.¹²⁰

The shift from British to American dominance did not present problems so long as the pound-dollar exchange rate remained stable. When the rate changed, however, it raised the cost of servicing Liberia's debt and exacerbated the country's fiscal difficulties. After World War I, for example, sterling was received in Liberia at a rate of \$4.80, but remittances to the U.S. in payment of interest on the 1912 refunding loan were received at the London/New York rate of around \$4.15.¹²¹ The devaluation of the early

¹¹⁷ 'Number of branches open at 31st March', in LMA CLC/B/208/MS28816/001.

¹¹⁸ British legation, Monrovia, to Foreign Office, 11 November 1930, in TNA CO 267/630/8.

¹¹⁹ Department of Overseas Trade (Board of Trade) to Bank of England, 26 November 1930, 19 December 1930 and 7 May 1931, in Bank of England OV67/1.

¹²⁰ Maynard, 'The economic irrelevance of monetary independence', p. 113.

¹²¹ BBWA to Foreign Office, 3 November 1919, in TNA T160/887.

1930s (see Figure 5) also made it difficult for Liberia to service its debts and affected the purchasing power of Liberians. The President's annual message to the Legislature for 1932 reported that 'the difference in the rate at which we receive sterling for government taxes and other income and the rate which the Government is credited when it has to pay its foreign claims represents a loss of a little over 26 per cent.'¹²² Liberian revenues were already suffering owing to a falling off of trade during the Depression. An uprising among the Kru also required rapid increases in public spending. In 1932 the budget deficit amounted to nearly half of total revenue (Figure 6).

Fig. 5 Pound-dollar exchange rate, 1929-38

Source: Broadberry, 'Purchasing power parity', p. 70.

The combination of the rising cost of debt payments and falling revenue again placed the Liberian government in a position where it was unable to service its debts. In September 1932 the Acting Secretary to the Liberian Treasury sent a letter to the Finance Corporation of America to request a two- year moratorium on interest payments along with a reduction in the salaries of American advisers in Liberia.¹²³

Fig. 6 Financial Position of the Liberian Government, 1928-38

Source: Steadman, *Report on the Fiscal System of the Republic of Liberia*.

¹²² *Annual Message of the President of the Republic of Liberia 1932*, pp. 31-2.

¹²³ Acting Secretary to the Treasury, Liberia, to the Finance Corporation of America, September 1932, in *FRUS 1932*, pp. 783-4.

The outbreak of World War II resulted in further shortages of currency, as well as difficulties relating to the devaluation of the pound. In 1939 Firestone commissioned Princeton economist Edwin Kemmerer to write a plan for monetary reform in Liberia. With exports of British silver banned owing to the war, Kemmerer observed that ‘Liberia is confronted with the likelihood of a shortage of money in the very near future.’¹²⁴ A more fundamental problem was the variance in the pound-dollar exchange rate. As in the 1930s, the declining dollar value of sterling made it increasingly difficult for the Liberian government to satisfy its obligations. The burden of both the salaries of U.S. officials and external debt payments was increased by the decline of sterling from \$4.80 to approximately \$4.00.¹²⁵

This change did not merely affect state finances. With the establishment of the Firestone plantation as well as the outbreak of war, Liberian trade had become increasingly oriented towards the U.S., at the expense of Britain. Figure 7 below shows the changing pattern of Liberian trade. The declining dollar value of sterling also increased the cost of U.S. imports for the private sector, including individuals as well as Firestone and other companies doing business in Liberia.

Fig. 7 Foreign Trade by Country, 1937-9

Source: Report on the Financial Operations of the Republic of Liberia for the year 1939, in TNA FO 371/24444.

¹²⁴ Kemmerer, ‘Plan for Monetary Reform’, p. 1.

¹²⁵ Kemmerer, ‘Plan for Monetary Reform’, pp. 1-2.

After the turmoil of the early 1930s there was increasing pressure for Liberia to move from British sterling to the U.S. dollar. Local circumstances provide much of the explanation for this, but contemporaries also saw it as a symptom of the global rise of the dollar at the expense of sterling. In December 1942 the Federal Reserve Bank of New York Press Summary noted that Liberia's currency change 'is believed to foreshadow the emergence of the dollar as an international currency... Dollar exchange is steadily replacing the pound sterling as an international currency exchange'.¹²⁶

Despite pressure coming from several sources, the implementation of the change was slow. In 1935 a law was passed establishing a gold dollar equivalent to the U.S. dollar as Liberia's monetary unit, and empowering the Treasury to demonetize British silver.¹²⁷ In practice, the did not take effect until eight years later, when sterling was replaced by the dollar in 1943, and shipments of British sterling were made as late as 1942, when £20,000 in British silver coin was shipped to Monrovia.¹²⁸ The next section will examine the challenges of changing currency in a dollarized economy.

IV

For developing countries, dollarization is effective in limiting expectations of inflation precisely because it is difficult to reverse. Eichengreen describes dollarization as 'not just locking the door to the central bank (the currency board solution) but effectively throwing away the key'.¹²⁹ The transitional costs of switching from one currency to another are one reason for the additional credibility of dollarization as compared with a

¹²⁶ Extract from the Federal Reserve Bank of New York Press Summary, 14 December 1942, in Bank of England OV135/1.

¹²⁷ Kemmerer, 'Plan for Monetary Reform', p. 4

¹²⁸ Treasury to Bank of England, 31 January 1942, in TNA MINT 20/1590.

¹²⁹ Eichengreen, 'When to dollarize', p. 3. See also Fischer, 'Seigniorage and the case for a national money', p. 300.

fixed exchange rate.¹³⁰ In Liberia's case, the cost of physically replacing the circulating currency was a major obstacle to moving from sterling to the U.S. dollar. According to U.S. officials in Liberia, these costs were estimated to be \$100,000-\$150,000, 'which Liberia does not have available for this purpose'.¹³¹ Further, the cooperation of the British Treasury would be required in order to dispose of large quantities of British silver coin, as it was only legal tender up to £2.

In the end, the more immediate needs of the war effort mitigated both of these costs. From 1942 an extensive U.S. military establishment was based in Liberia to protect rubber supplies.¹³² An initial request to continue shipments of British silver coin was denied by the British Treasury, and it was decided to introduce U.S. dollars as the circulating currency. This was the option preferred by the Bank of Monrovia, which was trying to limit its exchange risk.¹³³ A letter sent from the State Department in Washington D.C. to the U.S. legation in Liberia noted that 'the appearance of American forces in Liberia will immediately present an important commissary and paymaster problem. The War Department has expressed a desire to introduce, if possible, American currency for local expenditures and salary payments'.¹³⁴

In addition to the costs of physically exchanging one currency for another, such a currency change has considerable information costs. Goodhart argues that 'in many historical, and current, examples of currency-area dissolution, separation has occurred when some event has already diminished the information value of the shared currency

¹³⁰ Goodhart, 'Political Economy of Monetary Union', p. 485.

¹³¹ U.S. Charge d'Affaires, Monrovia, to U.S. Secretary of State, 8 March 1942, in *FRUS 1942*, p. 431. For more on the costs of physically changing currency, see Goodhart, 'Political Economy of Monetary Union', pp. 485-6.

¹³² Buell, *Liberia*, pp. 3-4. The full text of the Defense Areas agreement of March 1942 is published as Appendix 2.

¹³³ British Supply Council in North America to Treasury, 10 September 1942, in TNA MINT 20/1590.

¹³⁴ Acting Secretary of State to the Charge d'Affaires, Monrovia, 5 March 1942, in *FRUS 1942*, p. 430.

within the separating region or state.’¹³⁵ The information costs of the change would have been mitigated by the fluctuations in the pound-dollar exchange rate, which had complicated past efforts to plan future expenditure. A League of Nations report from 1932 noted that ‘it was clear that in view of the changing currencies and the varying economic conditions it was impossible to fix a budget here and now.’¹³⁶ The devaluation of the late 1930s is likely to have produced similar confusion. The fact that Liberia had retained the dollar as the unit of account for official transactions likely limited some of the usual costs of changing currencies, such as the denomination of written contracts and other financial arrangements.¹³⁷

After negotiations with the British government, sterling and WACB coinage were collected in Liberia and shipped to the West Indies (where there was a shortage of British currency) and Sierra Leone, respectively.¹³⁸ A public notice of 7 December 1942 by the Liberian president announced that it was ‘the intention of the Government to withdraw British coins and to adopt U.S. currency as a circulating medium’. British coins would be redeemed in U.S. dollars at the rate of \$4.00 to the pound. They could also be used to pay ‘taxes and other public obligations’ up to 30 June 1943.¹³⁹ Liberia remained dollarized for the remainder of the twentieth century.¹⁴⁰

V

¹³⁵ Goodhart, ‘Political Economy of Monetary Union’, p. 485.

¹³⁶ League of Nations, *Final Report of the Committee Appointed to Examine the Liberian Government’s Request for Assistance*, in U.S. Department of State, *Liberia*, p. 5.

¹³⁷ Goodhart, ‘Political Economy of Monetary Union’, p. 486.

¹³⁸ Royal Mint to Treasury, 1 March 1943, in TNA MINT 20/1590.

¹³⁹ Public Notice by Edwin Barclay, President of the Republic of Liberia, 7 December 1942, in TNA MINT 20/1590.

¹⁴⁰ Erasmus, et al., ‘Dedollarization in Liberia’.

The question of Liberia's monetary independence continued to be discussed in subsequent decades, with debates about whether the reintroduction of a national currency would contribute to development efforts. A proposal to establish a National Bank of Liberia with authority to issue a new Liberian currency in 1951 was quashed by American opposition.¹⁴¹ Similar proposals were also made in the 1970s.¹⁴²

Debates about the appropriate monetary policies for African countries were widespread in the post-war period, as the transition to independence sparked fierce debates about the costs and benefits of super-fixed colonial monetary systems.¹⁴³ Contemporary observers were critical of a number of aspects of colonial currency systems, particularly the inability of colonial currency boards to pursue independent monetary policies, and the fact that they could not finance government deficits. Schwartz questions these conclusions, noting that the capacity of central banks in developing countries to undertake successful stabilization operations is questionable, and that the ability of central banks to finance government debt often led to inflation.¹⁴⁴ With the benefit of hindsight, Herbst describes the hopes of African nationalist leaders that their countries would benefit from monetary independence as 'a cruel joke'.¹⁴⁵

The history of Liberia suggests that for most African countries, monetary independence in the gold standard era would have had little benefit. The institutional weaknesses and financial underdevelopment that undermined the Liberian dollar were also present in other African territories. Budget crises were common in African colonies,

¹⁴¹ Note for record: Commercial banks operating in Liberia, 14 July 1961, in Bank of England OV 135/2.

¹⁴² See Maynard, 'Economic irrelevance of monetary independence'; Miller and Carter, 'The modern dual economy', p. 114.

¹⁴³ For contemporary contributions, see Hazlewood, 'Economics of Colonial Monetary Arrangements'; Olakanpo, 'Monetary Management in dependent Economies'. Uche, 'Bank of England vs the IBRD' provides an overview of the debate in the Nigerian case.

¹⁴⁴ Schwartz, 'Currency boards', pp. 171-2.

¹⁴⁵ Herbst, *States and Power*, p. 226.

which, like Liberia, were vulnerable to changes in external demand for their exports.¹⁴⁶ It seems likely that other African territories would have also succumbed to the temptation to print money in order to fund either emergency expenditure or development efforts, if they had not been limited by a super-fixed regime. The fear that colonial administrations would do just that was one of the key motivations for the establishment of currency boards in British colonial Africa.¹⁴⁷

Liberia has often complicated assessments of the costs and benefits of colonialism in Africa. In a widely-publicized interview in 1957, Charles King, the Liberian representative to the United Nations, declared that Liberia was less developed than its neighbours in West Africa because it had not had the advantages of colonial rule. He stated that the difference between Liberia and Ghana was ‘the difference between the home of a man who has had to accomplish everything by his own sweat and toil and that of a man who has enjoyed a large inheritance’.¹⁴⁸ Just a few years later, Northwestern economist George Dalton wrote ‘for those who are impressed by the favourite myth of African political leaders – that before European colonization Africa must have enjoyed some sort of golden age, because its present economic and social problems are the evil legacy of wicked European colonialism – an examination of Liberia is instructive’.¹⁴⁹

The case for Liberia as a counterfactual to colonialism cannot be pressed too far. Many of the country’s fiscal problems were due to the fact that it was governed by a small minority group struggling to maintain dominance over a larger indigenous majority, in a manner little different from that used by European colonial administrations. It could

¹⁴⁶ Gardner, *Taxing Colonial Africa*, p. 64.

¹⁴⁷ Herbst, *States and Power*, p. 206.

¹⁴⁸ Phillips, ‘Liberian Upholds Colonial Benefit’, *New York Times*, 23 March 1957.

¹⁴⁹ Dalton, ‘History, politics and economic development in Liberia’, p. 572.

be argued that an indigenous African state with greater legitimacy would have needed to spend less on the conquest of its territory, leading to a more stable fiscal position. However, the upheavals of the nineteenth century suggest that even indigenous centralized states endeavoured to extend their influence. Liebenow draws a comparison between Americo-Liberians and the Zulu, or the Amharic-speaking peoples of Ethiopia.¹⁵⁰ Indigenous African states may have faced similar fiscal challenges with respect to maintaining their sovereignty on a continent with limited history of centralized rule.

However, the case of monetary policy in particular suggests that the costs and benefits of colonialism need to be assessed with a realistic picture of the likely alternatives in mind. Munro argues that rising commodity prices in the late nineteenth century would have resulted in the greater integration of African economies with the rest of the world even without colonial rule.¹⁵¹ Like today, the policy options available to small, open economies are more limited than those of developed countries. This suggests that informal influence extended through globalization may have had similar results in terms of the exchange rate regimes of African economies even without the political domination of the colonial powers.

¹⁵⁰ Liebenow, *Liberia*, p. 24.

¹⁵¹ Munro, *Africa and the International Economy*, pp. 87-8.

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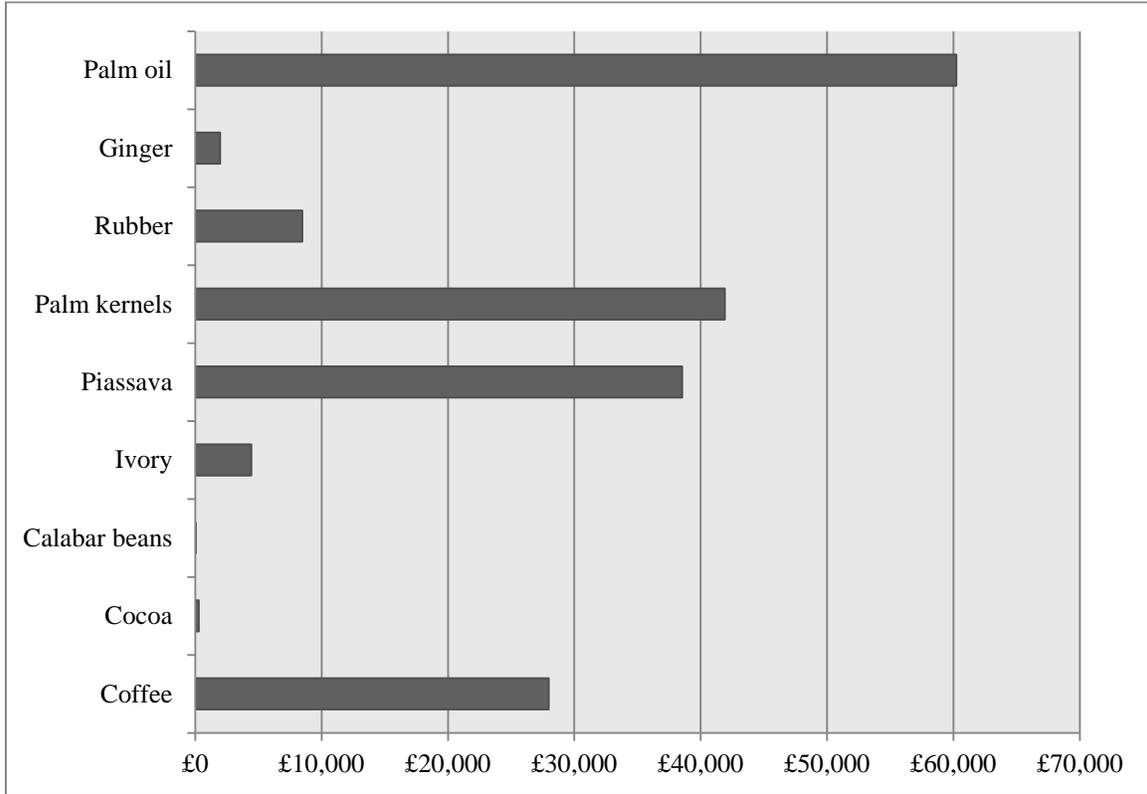
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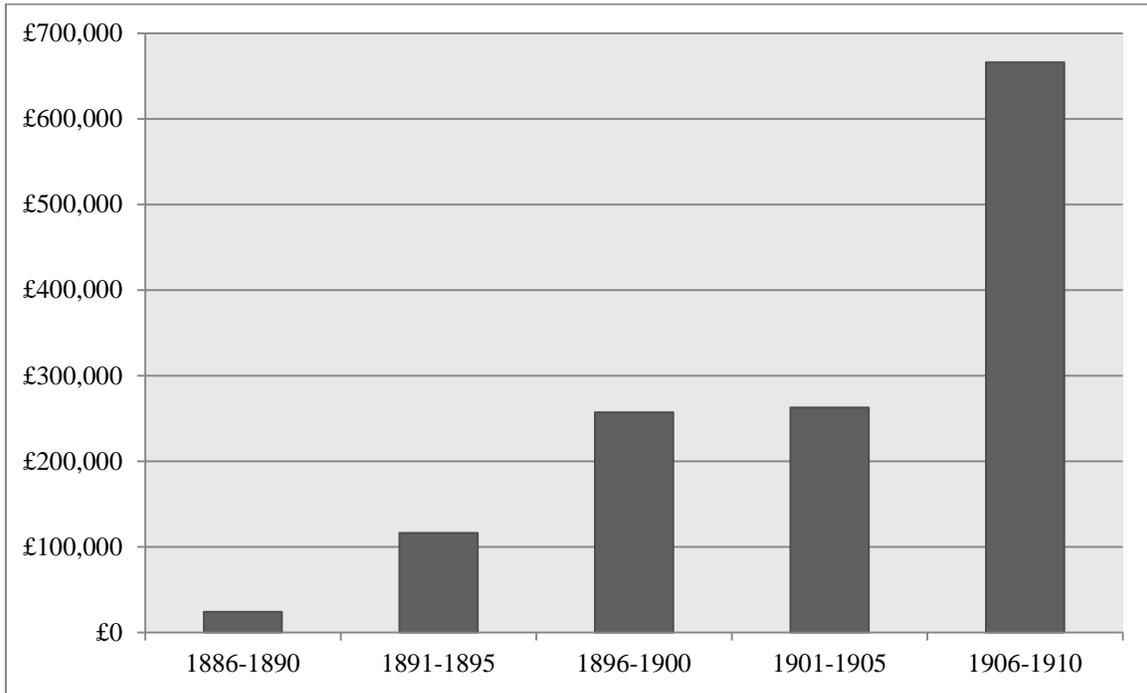
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Fig. 1 Principal Exports from Liberia, 1908



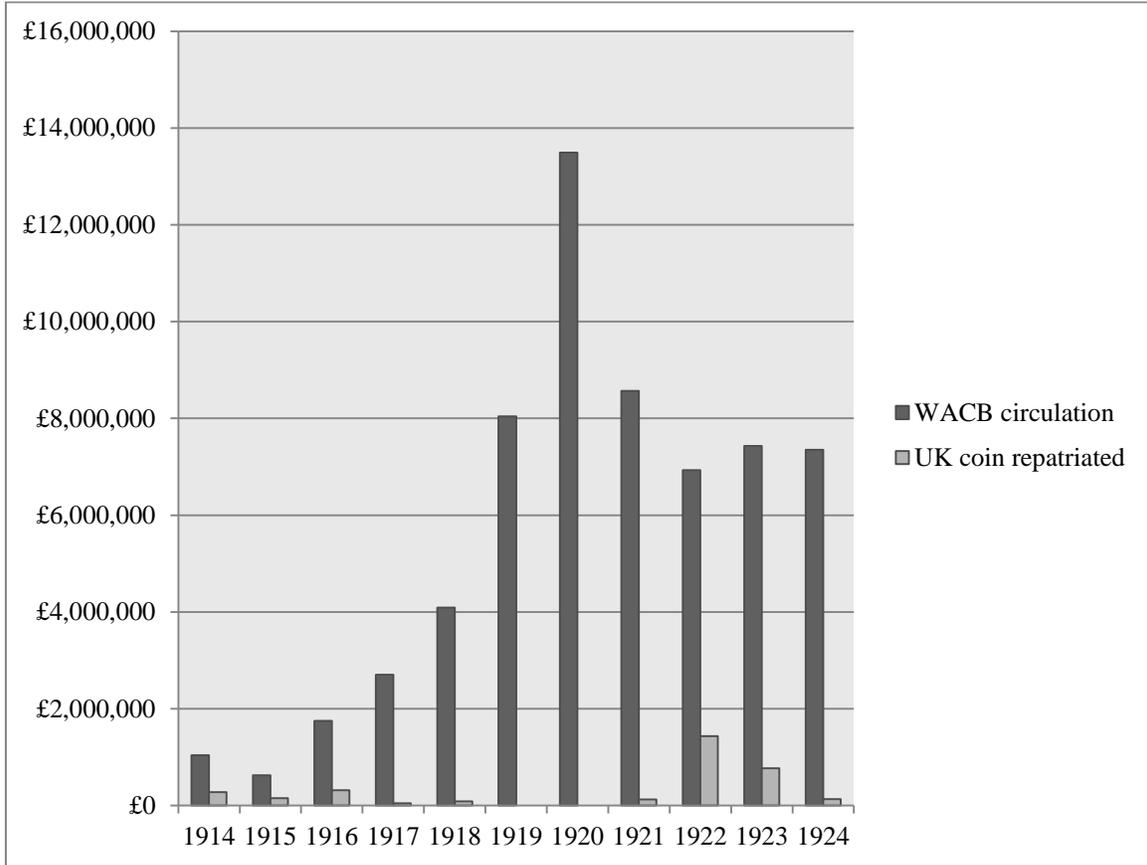
Source: Parks, *Report on the Trade and Commerce of Liberia 1909*.

Fig. 2 Imports of British silver coin into West Africa



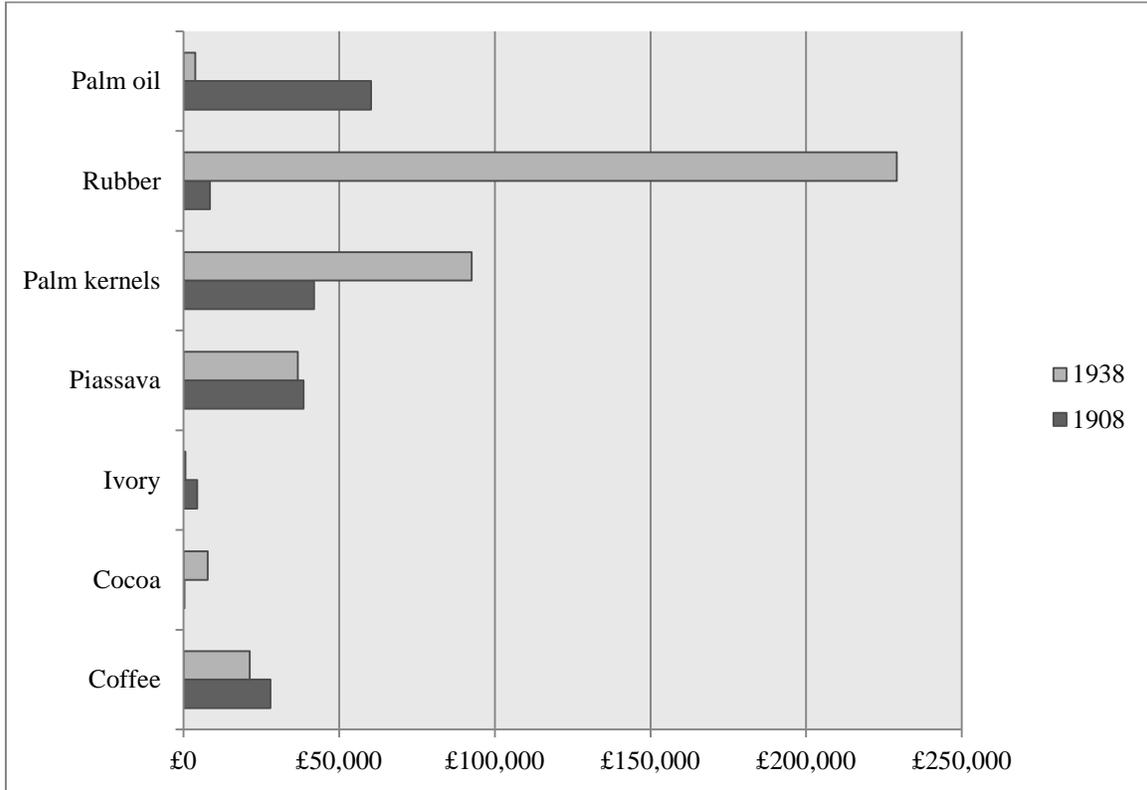
Source: *Report of the Departmental Committee Appointed to Inquiry into Matters Affecting the Currency of the British West African Colonies*, p. 6.

Fig. 3 WACB Currency Issues and Repatriated British Silver Coin



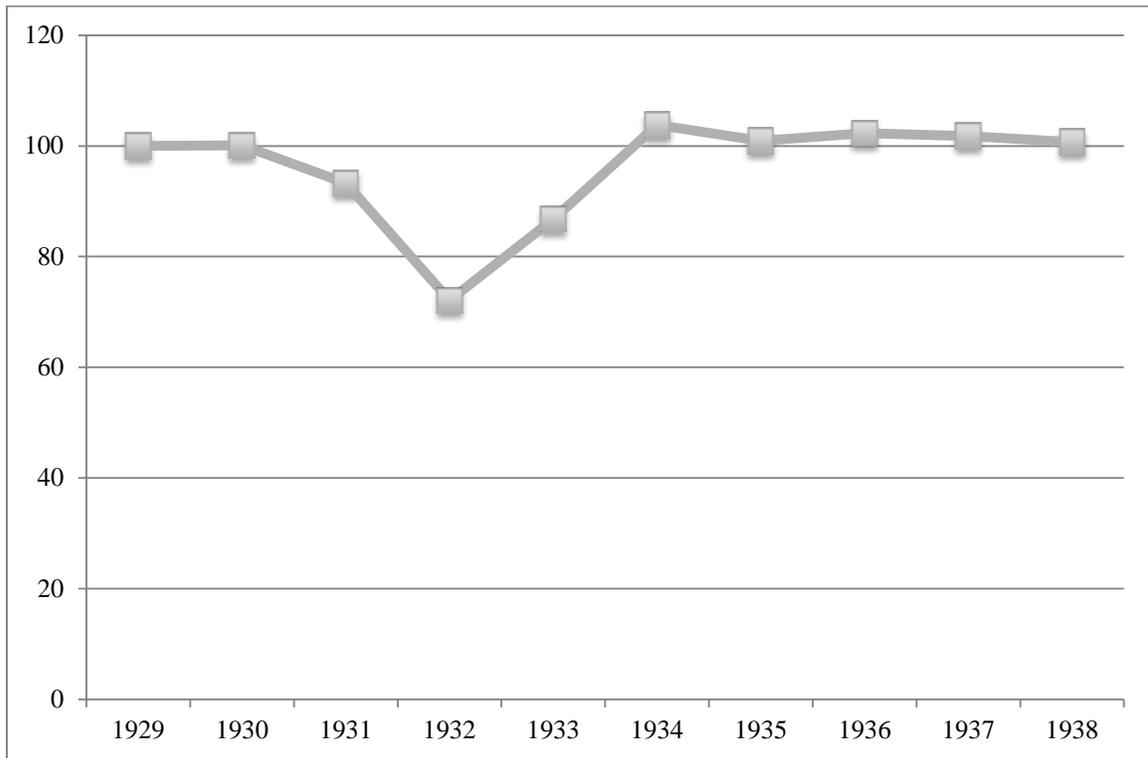
Source: West African Currency Board, *Annual Reports*.

Fig. 4 Principal Exports from Liberia, 1908 and 1938



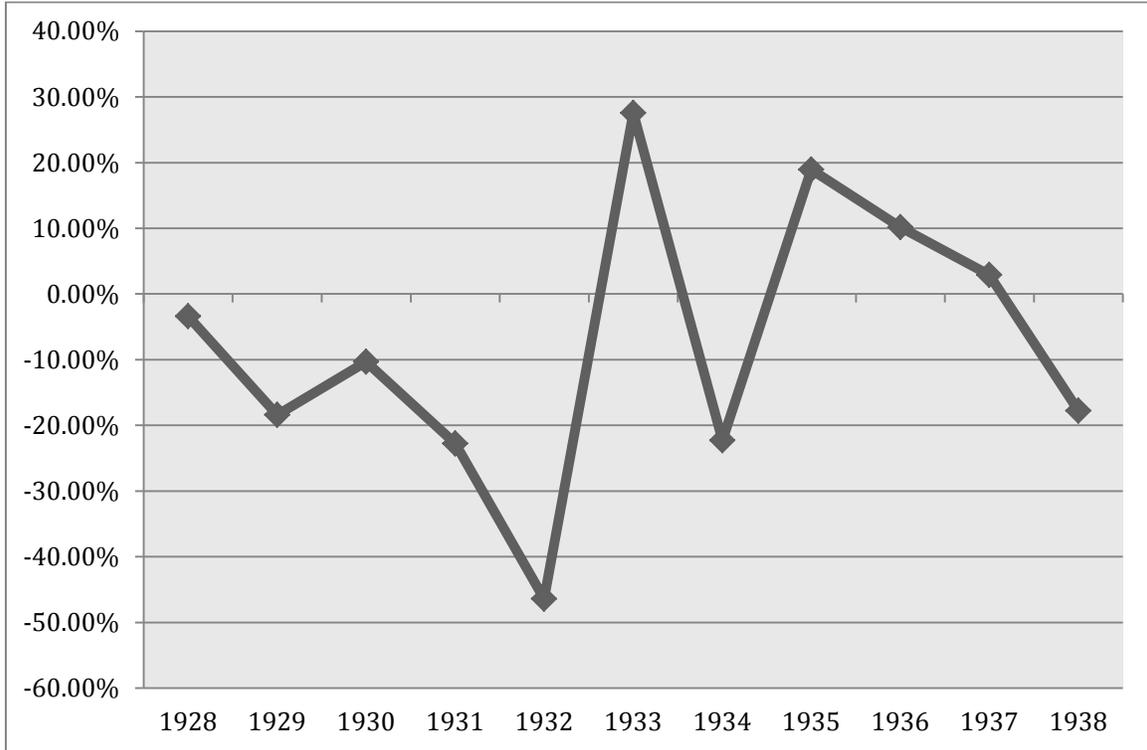
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Fig. 5 Pound-dollar exchange rate, 1929-38



Source: Broadberry, 'Purchasing power parity', p. 70.

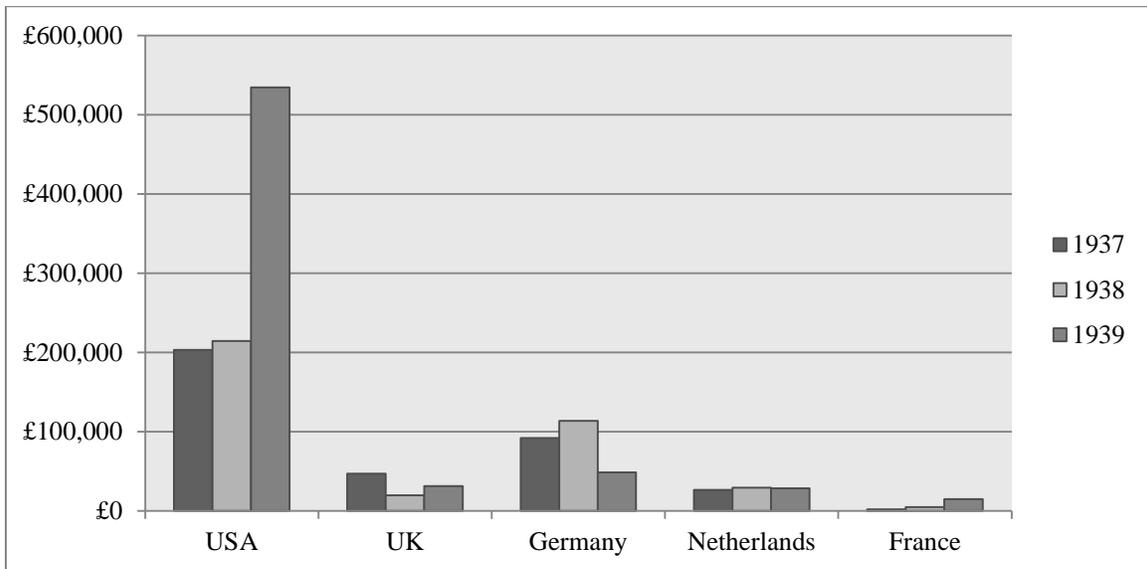
Fig. 6 Financial Position of the Liberian Government, 1928-38



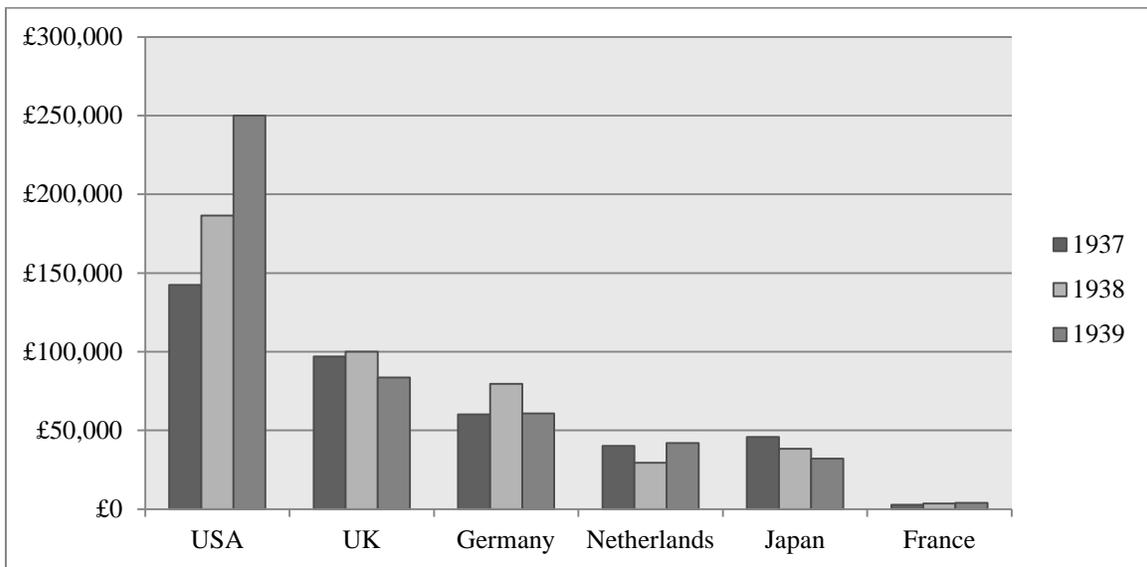
Source: Steadman, *Report on the Fiscal System of the Republic of Liberia*.

Fig. 7 Foreign Trade by Country, 1937-9

a. Exports



b. Imports



Source: Report on the Financial Operations of the Republic of Liberia for the year 1939, in TNA FO 371/24444.