A COMPARATIVE ANALYSIS OF COMMERCIAL BANKING IN TRINIDAD AND TOBAGO, JAMAICA AND BRITISH GUIANA (NOW GUYANA)

A Thesis

Submitted in Partial Fulfilment of the requirements for The Degree of Masters of Arts in The Department of Economics and Political Science.

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PREFACE

Several important works on the Monetary Systems of the Caribbean area have been written within recent years: Mr. Charles Victor Callenders' The Development of the Capital Market Institutions in Jamaica; Mr. Clive Yolande Thomas' Monetary and Financial Arrangements in a Dependent Monetary Economy; A Study of British Guiana 1945-1962, and Miss Ruby Samlalsingh's Money Supply - Its Role in the Economic Development of Trinidad and Tobago. We are greatly indebted to these writers. Both Mr. Callender and Miss Samlalsingh's works have been referred to extensively in Chapter II.

While these writers have analysed the institution in the individual territories, we attempt here the difficult task of comparing the three different territories. In addition, while these writers surveyed the whole financial system, we attempt to pay special attention to the commercial banking systems.

The study has been made extremely difficult by the lack of important statistical data, particularly in the early post-war period. In addition, the banking statistics available up to the late 1950's and early 1960's have been published in categories which make specific analysis extremely difficult, and much more so when a comparative analysis is attempted. This particularly true of statistics on loans and advances.

In Chapter I no attempt has been made to analyse either economic growth or economic development, but rather, we have tried to give a general description of the three territories indicating the important sectors. The growth rate figures quoted in the text, unless specified otherwise, are calculated in averages at current prices. The dollars used in this study, unless specified otherwise, are West Indian dollars $4.80= £1 sterling.

Our chapter on Central Banking is highly limited by the recency of their establishment. Recent amendments and subsequent legislation (if any) may contradict our claims. This is particularly true of the Bank of Guyana, the most recent. Our analysis of the Bank of Guyana is based exclusively on the laws of the Bank of Guyana Ordinance, Ordinance No. 23 of 1965.

During my years at University, both as an Under-graduate Student at Sir George Williams University, and a Graduate Student at McGill University, I have benefited greatly from the lectures of all my lecturers. However, I would like to express special gratitude to Mrs. Muriel Armstrong of Sir George, who took a keen interest in my studies there, and Dr. Earl F. Beach, at McGill whose help and guidance enabled me to successfully complete my exam requirements.

In the preparation of this thesis, several persons contributed useful suggestions. Mr. A. McIntyre of the University of the West Indies suggested the topic, Mr. Edwin Carrington, a fellow Graduate Student at McGill, rendered helpful ideas and Dr. Beach directed the actual preparation.

The Staff at the Central Statistical Office in Trinidad and Tobago, The Central Bank of Trinidad and Tobago, and the Bank of Guyana provided me with information without which the thesis could not be completed.

In addition I wish to thank the Staff of the Library at the University of the West Indies in St. Augustine, Trinidad, who permitted me the use of their library facilities in Summer 1966.

Several persons have read the manuscript and made corrections: Dr. Beach, Professors Kari Levitt and William Demas of McGill University, and Mr. Edwin Carrington. Mrs. Sonia Lizotte typed the final copy. I am greatly indebted to them all.

None of the people should, of course, be held responsible for any errors or inaccuracies that may remain. They are all mine.

My deepest gratitude, however, is to my wife, whose love, understanding and tolerance were an inspiration throughout the years.

NOTE:

This study was almost completed before I became attached to the Bank of Nova Scotia. The views expressed here do not represent the views of the Bank.

LIST OF STATISTICAL TABLES

INTRODUCTION

Trinidad and Tobago, Jamaica and British Guiana at the present time are Independent Nations within the Commonwealth. They are small territories and even if economically integrated the resulting economy would be a small one.

The three territories, in themselves relatively poor, are surrounded by other islands, which are smaller and poorer still. They have all had a long history of political and economic insularity and still think predominantly in unit terms; and their economic contacts with each other are very limited. The water barrier between the individual islands acts as a powerful separatist force.[1]

The three territories depend to some degree upon differing types of economic activity, but their economic structures and production patterns are fundamentally similar. The Monetary System of the three territories (until the establishment of Central Banks) had followed the broad pattern of arrangements that has come to be known as the Colonial Sterling Exchange Standard.

The unit of account in Trinidad and Tobago and British Guiana is "Dollar" and its value is 4.s 2d., Sterling. In Jamaica, the unit

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[1] A.I. Bloomfield, Central Banking Arrangements for the W.I. Federation, p. 4.

of account is "Jamaican pound" whose value is equal to the pound Sterling. The three territories have very recently established Central Banks of their own.

In Chapter I, an attempt is made to show the distinguishing features of the economies and in Chapter II, the historical pattern of Monetary Arrangements is described. Chapter III shows the performance of the commercial banks during the Post War period. Chapter IV shows the recent Central Banking Arrangements and in Chapter V our criticisms and conclusions are presented.

CHAPTER 1

Distinguishing Features Of The Economies

Size

Trinidad and Tobago, Jamaica and British Guiana are relatively small territories both in terms of land area and population. In 1961 the total population of the three territories was only 2.9 million while the total area is 89,391 square miles. However, the size and population of British Guiana distort general averages and this is shown in Table 1.1.

TABLE 1.1.

Population Data

	Population 1961	Area Square Miles	Density per Square Mile	Natural* Rate of Increase During 1960
Jamaica	1,630,000	4,411	370	3.3%
Trinidad and Tobago	859,000	1,980	418	3.1%
British Guiana	580,000	83,000	7	3.3%

* Excludes emigration and immigration.

Source: W.G. Demas, The Economics of Development in Small Countries with special reference to the Caribbean, McGill University Press, 1965, Table I, p.97.

From the table above it is evident that the territories are small and even if they were economically integrated, the resulting economy would indeed be a small one.

Rates of Growth

In spite of this limitation in size, however, the three territories experienced relatively high rates of growth during the post war period. In Trinidad and Tobago, the average annual rate of growth, at current prices, between 1953 and 1964 was 14.8 percent, while in Jamaica, during the same period, it was 12.9 percent and in British Guiana it was 6.3 percent. G.D.P., at current factor cost in the three territories is shown in Table 1.2.

TABLE 1.2

G.D.P. at Current Factor Cost
(Millions of Dollars)

	Trinidad & Tobago	Jamaica	British Guiana
1953	386	512	177
1955	476	655	193
1956	556	761	208
1957	659	921	227
1958	719	954	215
1959	799	947	220
1960	866	1,029	264
1961	955	1,102	290
1962	1,006	1,147	307
1963	1,037	1,215	272
1964	1,077	1,306	311

Source: U.N. Yearbook of National Accounts, 1965.

The Export Sector

The chief dynamic factor contributing to the high rates of growth during the period was exports. In the three territories the export sector is one of the largest generators of income as it represented 64.5 percent of G.D.P. in Trinidad and Tobago in 1964, and in the same year accounted for 52.4 percent and 29 percent in British Guiana and Jamaica respectively.

A striking factor of the export sector is the fact that it has traditionally accounted for a large proportion of G.D.P. in the three territories. This is seen in Table 1.3.

TABLE 1.3

Export as a Percentage of G.D.P.
(Percent)

	Trinidad & Tobago	Jamaica	British Guiana
1953	67	24	47
1955	60	25	47
1956	59	27	46
1957	60	24	48
1958	59	24	45
1959	56	27	47
1960	57	28	48
1961	62	29	51
1962	59	29	53
1963	62	29	64
1964	65	29	62

Source: Calculated from U.N. Yearbook of National Accounts, 1965.

It is significant that the export sector is of much greater relative importance to the economies in both Trinidad and Tobago and British Guiana, averaging 60 percent in the former and 51 percent in the latter, while averaging only 27 percent in Jamaica over the period. Chiefly responsible for this is the greater diversification of the Jamaican economy resulting in increasing output in other sectors notably, Manufacturing, Construction and the Distributive Trades. (discussed below).

Primarily responsible for the growth of the export sector, was the strong external demand for a few primary products which comprise the bulk of the exports. In 1964 in Trinidad and Tobago, sugar, and sugar products, and petroleum, accounted for about 91 percent of total exports;[1] in the same year, in Jamaica, sugar and sugar products, bauxite and alumina accounted for about 73.3 percent of exports[2] and in British Guiana sugar and sugar products, rice and bauxite accounted for about 81.4 percent of exports.[3] Total exports of goods and services in the three territories are shown in Table 1.4.

TABLE 1.4

Total Exports
(Millions of Dollars)

	Trinidad & Tobago	Jamaica	British Guiana
1953	257	124	83
1954	262	151	85
1955	285	165	90
1956	330	193	95
1957	393	247	108
1958	425	230	97
1959	449	231	104
1960	491	282	127
1961	594	305	148
1962	592	319	164
1963	640	351	175
1964	694	378	103

Source: U.N. Yearbook of National Accounts, 1965.

The importance of the export sector in our three territories illustrates one aspect of economic dependence of the three economies.

[1] Calculated from The Annual Statistical Digest, 1964, Table 145.

[2] Economic Survey Jamaica, 1964.

[3] Review of Financial Statistics, June, 1965.

Economic dependence means that a large percentage of a country's Gross Domestic Product is generated by external forces and forms a strong point in Professor W. Demas' criteria for underdeveloped territories:-

Typical of small open economies

> (a) a high ratio of foreign trade to Gross Domestic Product.
>
> (b) the domination of the export trade, and in some cases the whole economy by one particular export.....[4]

Another important characteristic of the production in the export sector is the fact that the petroleum companies in Trinidad and Tobago, and the bauxite companies in Jamaica and British Guiana are almost exclusively foreign owned. As a result, foreign investment in these industries has played an important role in the growth and development of these industries. This is reflected in the fact that in Trinidad and Tobago in 1962 only 29 percent[5] of Gross Domestic Capital Formation was financed by local savings, while in Jamaica in 1964, 50 percent[5] was financed by domestic savings and in British Guiana in 1960 only 25 percent[5] was financed by domestic savings.

The importance of foreign investment in the Territories illustrates another characteristic of underdeveloped territories, peculiar to the West Indies, and emphasized by Professor Demas:

> the dependence on foreign capital for the development of the mineral-producing, manufacturing and, to some extent, the sugar industries........................[6]

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[4] W.G. Demas, op. cit., p. 116.

[5] U.N. Yearbook of National Accounts, 1965.

[6] W.G. Demas, op. cit., p. 117.

While the rapid growth of the export sector was of special importance in the high rates of growth experienced in the three territories, an observation of the industrial origin of G.D.P. shows that the industries contributing to this growth grew at different rates.

Mining and Quarrying

In Trinidad and Tobago, the mining and quarrying sector refers primarily to the production and refining of petroleum and asphalt, while in both Jamaica and British Guiana they refer primarily to the production of bauxite and alumina.

In Trinidad and Tobago, the mining and refining of oil dominates the economy. In 1964 it contributed approximately 30 percent of G.D.P., 84 percent of domestic exports and 51 percent of total imports. In describing the production of oil and asphalt in the economy Mr. Frank Rampersad[7] observes three distinct phases of growth. The first phase lasted from 1951 to 1954 and could be described as the stage of actual build up, during which time there was considerable activity in expanding the refinery capacity, and also in trying to expand the volume of land production of crude oil. Increases in the value added during this period were not significantly high as the growth rates were percentages 5.3, 3.4, and 2.6 respectively.

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[7] Frank Rampersad, "Growth and Structural Change in the Economy of Trinidad and Tobago 1951-1961", Research Papers, Trinidad and Tobago, Office of the Prime Minister, December 1963, p. 107.

The importance of the mining sector to the economy is noted when it is observed that during this period of relative stagnation in the oil industry, there was a relative stagnation in the entire economy as the growth rate during the same period was correspondingly, percentages 3.0, 1.3, and 3.6 respectively.

In the period 1955 to 1958, however, there was a tremendous increase in production. This is shown in Table 1.5.

TABLE 1.5

Growth in the Production of Oil and Asphalt (1960 Prices)

1954 - 1955	14.6%
1955 - 1956	13.7%
1956 - 1957	14.0%
1957 - 1958	12.8%
1958 - 1959	10.9%

Source: F. Rampersad - Growth and Structural Change in the Economy of Trinidad and Tobago, 1951 - 1961 p. 107.

Several factors contributed to this rapid increase in production, but probably the most important was the strong external demand, which was accentuated by the Suez crisis in the 1956-1957 period. In addition, the large refinery capacity which was built up in the 1951-1954 period, and later in 1957 when Texaco came into the area, facilitated this increased output.

In the industry itself, there were several internal developments which contributed towards this strong growth. Actual mining of oil itself was given a great boost in 1955 when the first submarine well was completed as a commercial producer. In 1958, 17 wells were drilled, of which 14 were producers.[8] During the period natural gas production more than doubled, increasing from 38.4 thousand million cubic feet in 1954 to 79.2 thousand million cubic feet in 1958.[9]

In addition, in order to supply the growing refinery complex, an agreement was reached, in 1955, between the principal oil company in the island and another oil company in Venezuela, whereby one million barrels of crude oil per month were to be supplied to a local refinery over the decade 1955 to 1964.

Once more, the importance of this sector to the whole economy is seen in the fact that during this period of expansion in the oil sector, there were similar increases in the rates of growth of the entire economy. This is shown in Table 1.6.

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[8] Government of Trinidad and Tobago, Economic Survey of Trinidad and Tobago, 1953-1958, Office of the Premier and Ministry of Finance, Dec. 1959, p. 34.

[9] Ibid., p. 36.

TABLE 1.6

Economic Growth of
Trinidad and Tobago
(1960 Prices)

1954 - 1955	13.7%
1955 - 1956	15.4%
1956 - 1957	11.5%
1957 - 1958	4.9%
1958 - 1959	7.7%

Source: F. Rampersad, op. cit., p. 94.

Since 1959, however, it appears that the expansion of output in the industry has levelled out and petroleum output has now been stabilized at about 50 million barrels per year. Recent increases in imports are discussed in a later section. Production of Crude Oil is shown in Table 1.7.

TABLE 1.7

Total Production of Crude Oil
(Millions of Barrels)

1954	24
1955	25
1956	29
1957	34
1958	37
1959	41
1960	42
1961	46
1962	49
1963	49
1964	50

Source: Annual Statistical Digest, 1964, p. 49.

Bauxite, Alumina, and Aluminium are important industries to both Jamaica and British Guiana. As a result a description of the chief characteristics of the industries is instructive. Aluminium occurs in combination with oxygen in the compound aluminium oxide, commonly known as alumina, in a ratio of approximately 53 to 47. Alumina itself is the main constituent of bauxite ore of which it forms between 30 and 65 percent and is combined with a number of other substances, principally silica, iron, titanium and water.[10]

Production of aluminium from bauxite then, requires three distinct stages. First, the mining and drying of bauxite ore, usually accomplished with the use of heavy earth moving equipment. Second, alumina is extracted by "washing" the ore with a solution of hot caustic soda which dissolves it, leaving the other substances behind as an insoluble residue. Alumina crystals are recovered from the resultant solution. The third and final stage, the separation of the aluminium from the oxygen in alumina, is based on an electrical process known as smelting. Alumina is mixed with cryolite, the mixture is melted and a high electric current is passed through. Molten aluminium then collects at the cathode and oxygen at the anode.[11]

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[10] Norman Paul Girvan, Foreign Investment and Economic Development in Jamaica Since the Second World War, unpublished Ph. D. Thesis, University of London, 1966, p. 113.

[11] Ibid., p. 114.

Thus the importance of the industry to the economy will depend upon the value added in each stage. While it is important that production of bauxite be expanded, it is much more important that the processing, or part of it, be done in the territories, since it is estimated that bauxite exported yields $6.60 per ton to the Jamaican economy while the processed ore yields $19.00 per ton.[12] The importance of processing locally is further emphasized by Professor Kari Levitt's contention that the British Caribbean supplies close to 90 percent of North America's need for bauxite, but for every dollar's worth of finished aluminium produced, the Caribbean earns 18 cents. The remainder accrues in the United States and Canada to the smelting end of the operation.[13] Production of Bauxite and alumina in Jamaica and British Guiana is shown in Table 1.8.

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[12] Ibid., p. 122

[13] K. Levitt, "Strategies for Economic and Social Development in Underdeveloped Areas," Papers from A Conference Organized by Canadian National Commission for UNESCO, The West Indies and the Atlantic Provinces of Canada, p. 6.

TABLE 1.8

Production of Bauxite and Alumina
(Thousands of Long Tons)

	Jamaica [a]		British Guiana [b]	
	Bauxite	Alumina	Bauxite	Alumina
1952	381	100	N.A.	N.A.
1953	1456	29	"	"
1954	2044	124	2310	Nil
1955	2666	192	2435	Nil
1956	3204	213	2481	Nil
1957	4634	436	2002	Nil
1958	5781	373	1586	Nil
1959	5220	418	1674	Nil
1960	5749	652	2471	Nil
1961	6462	688	2374	120
1962	7583	655	3036	277
1963	6966	708	2343	222
1964	7704	746	2468	292

N.A. - Not Available.

Source:

[a] N.P. Girvan, op.cit., p. 121

[b] British Guiana, (Guyana) Development Programme 1966-1972. p. XVI - 2.

The low ratio of alumina production in relation to bauxite production, 23 percent in Jamaica and 1 percent in British Guiana in 1964 emphasizes the importance of bauxite production, and the lack of processing operations within the territories.

The importance of bauxite and alumina to the Jamaican economy is seen in the fact that before 1952 it made no contribution to G.D.P., while after its establishment in 1953 it contributed 2.3 percent in the same year, and by 1964, it was contributing 9.5 percent to G.D.P. This has led C.O. O'Laughlin to state that even though the 8 percent increase in the sector's contribution to G.D.P. by 1962 may not appear large, the importance of the industry in the actual increments to growth in the period is much higher, and "direct and indirect effects of the industry's expansion probably accounted for at least 20 percent of the total growth of G.D.P. at constant factor cost."[14]

The importance of bauxite and alumina in British Guiana is seen in the fact that in 1964, the mining and quarrying sector accounted for 17 percent of G.D.P. and Bauxite and Alumina accounted for 87 percent of exports of minerals in 1964 and 36 percent of total domestic exports in the same year.

As mentioned above, the Caribbean area, mainly Jamaica and British Guiana, supplies 90 percent of North America's need for bauxite. The United States imports from the area is comprised almost exclusively of bauxite while Canadian imports consist of both bauxite and alumina. As a result the output in the industry is strongly related to the level of demand both in Canada and the United States.

Between 1953 and 1957, we observed a substantial increase in output in both territories particularly in Jamaica which only started

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[14] C.O. O'Laughlin, "Long-Term Growth of the Economy of Jamaica", Social and Economic Studies, 1963, p. 246.

production in 1952. The most important factor contributing to this trend was the demand by the United States, and to a lesser extent, that of Canada. Up to 1958 the single most powerful influence on the behaviour of the United States alumina market was the demand for, and policy of the Government, conditioned by military needs and strategic considerations.[15] It is estimated that between 1951 and 1957 Government purchases or allocations ran at an average of about one half million tons per annum.[16]

In Canada, increasing activity in the Canadian economy during most of the post war period, until 1956, resulted in an increasing demand for bauxite and alumina. This is seen in the fact that from 1949 to 1956 output in the mining sector increased at an average annual rate of 11 percent.[17]

The Canadian demand for West Indian bauxite is also a function of the demand for Canadian exports since bauxite is processed in Canada and re-exported. Increased Canadian demand is also reflected in the fact that between 1949 and 1956 Canadian exports increased at an average annual rate of 10 percent. At the same time civilian consumption in both Canada and the United States was rising rapidly, because of the increases in the uses of alumina as a primary material in the construction, transportation, consumer durables, electrical, machinery and

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[15] N.P. Girvan, op. cit., p. 124.

[16] Ibid., p. 124.

[17] Economic Council of Canada, First Annual Review, 1964, p. 148.

equipment, and packaging industries.

After 1957 there was a noticeable shift in the policy of the United States Government as it appears that the minimum government stockpile objectives were met, and as a result, purchases declined. This shift in government's policy also coincided with the 1957-1958 recession in investment and consumption demand in the United States economy. This recession in investment and consumption demand, as is expected, spilled over into the Canadian economy resulting in a decrease in Canadian demand. Between 1956 and 1963 output of the mining sector in Canada increased by only 5 percent per annum,[18] as compared to 11 percent in the previous seven years, and exports increased at an annual average rate of only 4.5 percent as compared with 10 percent in the previous seven years.

This decreased demand resulted in relative stagnation in the industries in both Jamaica and British Guiana, during the latter part of the 1950's and early 1960's. However, one important development in the industry in British Guiana has been the establishment of an alumina plant which began operations in 1961.

Manufacturing

In both Trinidad and Tobago and Jamaica, the manufacturing sector has experienced a substantial rate of growth over the period. In Trinidad and Tobago between 1953 and 1964 the average annual increase was

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18 Economic Council of Canada, op. cit., p. 148.

13.9 percent, while during the same period the average annual increase in Jamaica was 15.4 percent. However, in British Guiana the average annual increase for the same period was only 3 percent per annum. In terms of sectoral contribution to G.D.P., the manufacturing sector remained almost constant throughout the period in Trinidad and Tobago accounting for about 13 percent of G.D.P. In Jamaica in 1953, manufacturing contributed 14 percent of G.D.P., and by 1964 it had increased its contribution to 16 percent, while in British Guiana, the sectoral contribution decreased over the period from 15 percent to 12 percent.

Because of the pressing need to develop the manufacturing sector in our three territories an observation of the Jamaican experience would be of great interest. Before the 1950's the manufacturing sector was based mainly on the processing of local agricultural products and the production of a limited range of consumer goods for local consumption and export, such as sugar, rum, cigars and cigarettes, non-alcoholic beverages and a range of food products.[19]

However, during the period under survey several new industries have come into operation, some aiming at the local market and others for export, and many of these are based on imported raw materials. Among the products of these new industries are such commodities as textiles, clothing, footwear, cement, paint, containers, furniture and fixtures, and chemicals and chemical products.

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[19] Five Year Independence Plan, Jamaica, 1963-1968, p. 14.

This increase in the manufacturing sector resulted largely from the introduction of incentive legislation designed to promote rapid industrial development. The most important legislations passed were the Pioneer Industries (Encouragement) Law, the Industrial Incentives Law and the Export Industry (Encouragement) Law. These incentive legislations have been mainly in the form of "tax holidays," accelerated write-off on capital expenditures and duty free imports of raw materials. The effect of these Incentive Schemes is seen in Table 1.9.

TABLE 1.9.

Industries Established Under Incentive Schemes

Year	Industries Established during the Year
1958	13
1959	10
1960	10
1961	13
1962	23

Source: Five Year Independence Plan, Jamaica, 1963-1968.

In spite of the fact that the percentage contribution to G.D.P., by the manufacturing sector in Trinidad and Tobago during the period did not change noticeably, increases in the output over the period amounted to $86 million. Primarily responsible for this increase was the new industries such as textiles and building materials. Mr. Frank Rampersad notes that the textile industry has been one of the fastest growing sectors.[20] Two important reasons are given for this, one being, the

[20] Frank Rampersad, Growth and Structural Change in The Economy of Trinidad and Tobago, p. 114.

fact that rapid increases in disposable incomes in the country have resulted in a constantly expanding demand for the output of the sector, and the other, the fact that Government incentives are liberally applied in the industry. Government's incentives came mainly in the form of granting Pioneer status which facilitates the remissions on Customs duty, and also allows income tax holidays; others are assisted by remission of import duty.[21]

Also contributing to the growth of the manufacturing sector were important developments in the building materials industry, notably, the establishment of a cement factory. In addition, there was an expanding supply of building blocks, both clay and concrete and the manufacturing of paints. Other industries which expanded production were, chemicals and chemical products, fertilizers, furniture, non-alcoholic beverages, rum, matches and cigarettes.

In British Guiana the processing of sugar and sugar products accounted for about 65 percent.[22] of the output of the manufacturing sector of the economy. This traditional dependence on processing the output of an industry which is declining in importance has resulted in a decline in the sector's contribution to G.D.P. Another factor contributing to the decline of the manufacturing sector is the relatively small home market and easy availability of imported goods.[23]

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[21] Ibid., p. 114

[22] British Guiana (Guyana) Development Programme (1966-1972), p. XV-2

[23] Ibid., p. XV-3

And this is reflected in the fact that manufactures and manufactured goods comprised 22 percent of total imports in 1964.[24]

Construction

In both Trinidad and Tobago and Jamaica, the construction sector has been one of the most rapidly growing sectors of the economies. Between 1953 and 1963 the average annual increase in Trinidad and Tobago was 60 percent per annum. This phenomenal increase in construction resulted in the sector more than doubling its percentage contribution to G.D.P. In 1953 the sector contributed only 2 percent, while in 1963 it had increased its contribution to 5 percent of G.D.P. In Jamaica, increases in output were not as strong, the average annual increase was 15 percent between 1953 and 1964. However, in Jamaica the industry is much more important since in 1964 it contributed 10 percent of G.D.P. In British Guiana the sectoral output increased at an average annual rate of 4 percent during the same period, contributing 5 percent of G.D.P. in 1964.

The increasing growth of the construction sector is of paramount importance in our three territories. This is because at the basis of an industrialization programme is the need for structures, roads, and the attendant infrastructure all of which are the output of the construction sector.[25] In addition, the high rate of growth of popu-

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[24] Quarterly Review of Financial Statistics, June, 1965.

[25] F. Rampersad, op. cit., p. 116.

lation and the present shortage of housing create an increasing demand for housing facilities. Moreover, the labour intensive nature of the industry itself necessitates increases in output if the present high rate of unemployment (discussed below) is to be reduced.

Another important characteristic of the construction industry is the integration of the sector with the other sectors of the economy. This is reflected, for example, in the fact that increases in demand by the tourist industry will necessitate the increased construction of hotels. Increases in the manufacturing industry would mean the need for the erection of new factories, roads and dwellings. In general, any activity which leads to an increase in income in a country would lead to a concomitant increase in the demand for homes as the standard of living rises.

Because of interest in economic development by the various Governments and the importance of the construction sector to economic development, the governments have been extremely active in promoting the industry. In Trinidad and Tobago, there have been various loan schemes operating for Civil Servants, through the government Housing Loans Board, and for the general public, the Public Housing Loans Board. In addition, the government has also been active in Slum Clearance and Aided Self Help Programmes.

In Jamaica the industry has been stimulated by the increasing demands of the tourist industry resulting in increased construction of hotels, during the period, but got its greatest stimulus in the 1956-1957 period when large scale capital projects of the bauxite companies were underway. The government has also been actively encouraging construction through legislations such as Hotels Aid Law and Industrial Incentives Law. The Industrial Incentives Law empowers the government to grant tax concessions in the form of exemption of articles imported for construction. In addition, after the completion of construction, approved builders are granted income tax relief in respect of income obtained from the lease, or other letting of the factory for a period of fifteen years.[26]

In British Guiana, while there had been only marginal increases in the construction industry, here again the Government has taken an active part, through legislation, to encourage the expansion of the industry. These incentives have come mainly in the form of Income Tax Holidays,Tariff Concessions and Accelerated write-offs.

Agriculture and its related Primary Products.

Agricultural production for exports in the three territories is comprised of sugar cane, bananas, cocoa, citrus fruits, and rice. Other products, mainly for domestic consumption are vegetables, livestock and fishing.

During the period of 1953 to 1964, this sector experienced only

[26] Economic Survey Jamaica, 1961, p. 72.

marginal increases in output in the three territories. In Jamaica output increased at an average annual rate of 5.9 percent, in British Guiana the average annual increase was 4.4 percent, while in Trinidad and Tobago between 1953 and 1963 output increased at an average annual rate of 5.4 percent. This slow rate of increase in the agricultural sector, in the face of high rates of growth in the entire economies, resulted in the sectoral contribution to G.D.P., decreasing in the three territories. In Jamaica, in 1953, the sector contributed 21 percent of G.D.P. while by 1964 it had decreased to 13 percent. In British Guiana in the same period the sectoral contribution decreased from 30 percent to 26 percent, while in Trinidad and Tobago the contribution decreased from 17 percent in 1953 to 10 percent in 1963.

In the three territories there have been large increases in the output of sugar because of the high prices under the Commonwealth Sugar Agreement. Under this agreement the West Indies and British Guiana have an overall Agreement Quota of 900,000 tons per annum for exports to the "preferential markets" in effect the United Kingdom and Canada, and of this amount 640,000 tons - the Negotiated Price Quota - are guaranteed for sale in the United Kingdom at a price which is negotiated annually. Any amount exported over the Negotiated Price Quota is sold at world price.[27]

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[27] Eric Armstrong, "Projections of the Growth of the Economy of Trinidad and Tobago", Social and Economic Studies, 1963, p. 283.

The three territories have benefited greatly from these arrangements since they are very high cost producers of sugar and the negotiated prices have been above the world market prices. In addition, the sugar industry has benefited because of entry into the market of the United States after the 1961 reallocation of the Cuban Sugar Quotas.

The declining importance of the agricultural sector in the face of rapid expansion in the other sectors of the economies is significant since the increases in income, together with the rise in population (discussed below) result in an increasing demand for food, which has only been satisfied through imports. This is seen in the fact that imports of food in 1964 accounted for 12 percent of total imports in Trinidad and Tobago,[28] and 20 percent of total imports in both Jamaica[29] and British Guiana.[30] This confirms very strongly another characteristic of underdeveloped countries as expressed by Professor Demas:-

> Typical of many underdeveloped countries
>
> (a) a domestic agricultural sector the growth of whose production is lagging behind the increase in demand for food.[31]

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[28] Annual Statistical Digest, 1964

[29] Economic Survey Jamaica, 1964

[30] Quarterly Review of Financial Statistics, June, 1965.

[31] W.G. Demas, op. cit., p. 116.

In British Guiana, in addition to the price support in the sugar industry, prices were also guaranteed in the rice industry. Until 1964 most of the rice crop was sold to the West Indian Islands at a fixed price which was about 25 percent above the world price.[32] The rice industry has also benefited from increasing participation by the Government in the early years of the 1960's. The Government undertook an intensive programme of developing new lands through drainage and irrigation schemes. Moreover, the Government guaranteed commercial banks' loans to the rice industry, resulting in increases in investment in this sector. (This is discussed more fully in Chapter III).

In spite of these increases in G.D.P. experienced by the three territories during the period, the per capita G.D.P. at factor cost was far below the level prevailing in the developed countries of the world. In 1964, per capita G.D.P. in Trinidad and Tobago, Jamaica and British Guiana were 22 percent, 15 percent and 9 percent of that of the United States. This is seen in Table 1.10.

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[32] British Guiana (Guyana) Development Programme (1966-1972), p. 1-3.

TABLE 1.10

Per Capita Gross Domestic Product
Expressed in U.S. Dollars
(Official Exchange rate Conversion)

Countries	Per Capita G.D.P. at factor cost (U.S. Dollars)			
	1953	1958	1963	1964
Canada	1517	1767	1879	1987
U.S.A.	2090	2361	2853	3002
British Guiana	225	235	259	288
Jamaica	206	353	420	441
Trinidad and Tobago	332	532	656	662
Venezuela	718	978	881	948
India	62	67	82	N.A.
Italy	353	490	750	847
United Kingdom	818	1085	1385	1472
France	866	1113	1417	1523
Japan	196	285	590	671
Puerto Rico	389	548	895	963

N.A. - Not Available

Source: U.N. Yearbook of National Accounts, 1965.

Several factors have contributed towards the low per capita G.D.P. in the three territories. One of the most important factors, of course, is the high rate of population growth. The natural rate of increase in 1961 was 3.1 percent in Trinidad and Tobago and 3.3 percent in British Guiana and Jamaica. There are two main ways in which output per head could be increased, firstly, by the transfer of labour from low yielding to high yielding industries and secondly by an increase in productivity.

In the three territories the high yielding industries were primarily those related to production in the mining and quarrying sectors. In Trinidad and Tobago, this refers to the petroleum industry and in both Jamaica and British Guiana it refers to the bauxite industry. These are the industries which have experienced the greatest increases in productivity. In order to increase per capita income during the period, then, this would have meant the transferring of labour from other sectors into these sectors. However, these industries are themselves highly capital intensive industries and as a result employ only a relatively small proportion of the labour force. The petroleum industry in Trinidad and Tobago in 1960 employed only 5 percent [33] of the labour force while the bauxite industries in Jamaica in 1963 and British Guiana in 1965 employed only 8 percent [34] and 4 percent [35] of the labour force respectively.

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33 Jack Harewood, "Employment in Trinidad and Tobago", Research Papers, Office of the Prime Minister, Dec. 1963, p. 74.

34 Five Year Independence Plan 1963-1968, p. 35.

35 British Guiana (Guyana) Development Programme (1966-1972), p. 1-4.

The net result of this high rate of population growth and only marginal increases in per capita G.D.P., is a growing level of unemployment in the three territories. This is seen in the fact that the level of unemployment in Trinidad and Tobago in 1960 was 10 percent,[36] 12 percent in Jamaica in 1960[37] and 23 percent in British Guiana in 1965.[38]

The different levels of productivity in the various sectors and the high level of unemployment again vividly confirm Professor Demas' contention that in many underdeveloped territories there is a:-

> dualism of the economic structure as reflected in the varying levels of productivity in the different sectors and in the large volume of unemployment, whose productivity is, of course, zero.[39]

The Characteristics of Foreign Trade.

The importance of exports in the level of G.D.P. has been noted above, and it was seen also that the three territories have been exporters mainly of petroleum, bauxite and sugar. The fact that the output of these products is extremely small in relation to world output means that the prices of these products are set on world

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[36] M.A. McIntyre, "Some Problems of Development in the West Indies Today", Papers from A Conference Organized by Canadian National Commission for UNESCO, The West Indies and the Atlantic Provinces of Canada, p. 17.

[37] Ibid., p. 17.

[38] British Guiana (Guyana) Development Programme (1966-1972), p. I-8.

[39] W.G. Demas, op. cit., p. 116.

markets and are therefore beyond their control. This makes them price "takers" rather than price "makers".

During the period under survey there has been a tremendous increase in imports in the three territories. This increase in imports however, has not been matched by similar increases in exports and resulted in a deterioration in the balance of trade. This rise in imports has been stronger in different periods but is evident in Trinidad and Tobago in 1954 and 1955 and between 1958 and 1964. In Jamaica the rise in imports and deterioration of the trade balance is noticeable between 1957 and 1962 while a similar situation existed in British Guiana between 1953 and 1961.

Partly responsible for this deterioration in the balance of trade,we believe, was the liberal attitude of the commercial banks in their credit policies and this will be discussed fully in Chapter III.

In Trinidad and Tobago,the recent stagnation of output in the petroleum industry was noted,while it was estimated in 1963 that the known oil reserves of the territory would be depleted in ten to twelve years. As a result,crude petroleum imports are growing in order to supply the refinery complex which has been built up. In 1965,despite the drop in crude oil production,the refinery throughput rose by 7.5 percent to 137.2 million barrels,and the export of refined petroleum products grew by 11 percent to 127.9 million barrels.[40]

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[40] Canadian Imperial Bank of Commerce, Foreign Trade news, International Regional Office, Toronto, May-1966, p.1.

Nevertheless, a substantial proportion of the imports of the three territories still is comprised of food (noted above) and manufactured goods. Manufactured goods in 1964 comprised 17 percent of total imports in Trinidad and Tobago, 34 percent in Jamaica and 22 percent in British Guiana.

While the main trade partner of the three territories has traditionally been the United Kingdom, increasing relations with the United States have resulted in that country replacing the United Kingdom as the largest purchaser of exports both in Trinidad and Tobago and Jamaica. The chief reason for this is the fact that the bauxite companies in Jamaica and British Guiana and the Petroleum Industry in Trinidad and Tobago are primarily American owned and these are the sectors of the economies which have been growing while the traditional English owned sugar companies have been growing slowly.

Canada's trade with the territories has remained relatively constant except for exports from Jamaica which decreased by 50 percent between 1960 and 1962, the same period in which exports to United States made a tremendous increase. The largest decrease was registered in exports of sugar to Canada,[41] and it is reasonable to assume that this was a result of the reallocation of the Cuban sugar quota by the United States mentioned above. However, Canada's trade with British Guiana, particularly in exports of bauxite, and because of the Canadian owned

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[41] Economic Survey, Jamaica, 1962, p. 32.

bauxite companies, has been increasing. Table 1.11 shows the percentage distribution of trade.

One important feature mentioned above is noted in the increasing trade with "others" in Trinidad and Tobago since 1960. This is accounted for by the fact that imports of crude petroleum from both Venezuela and Saudi Arabia have been increasing in order to supply the large refinery complex.

TABLE 1.11

Percentage Distribution of Trade

	Trinidad and Tobago [a]			Jamaica [b]			B.G. [c]	
	1960	1962	1963	1960	1962	1964	1961	1962
				Imports				
U.K.	30	21	21	34	30	27	38	35
Br.Car.	2	2	2	7	5	3	NA	NA
U.S.	14	12	16	24	27	30	20	23
Canada	6	5	5	13	10	10	7	7
Others	48	60	56	22	28	40	35	35
Total	100	100	100	100	100	100	100	100
				Exports				
U.K.	31	23	23	30	26	28	25	23
Br.Car.	6	8	6	4	3	3	NA	NA
U.S.	13	24	27	26	40	37	21	21
Canada	5	5	4	40	20	26	26	27
Others	45	40	40	10	11	6	28	29
Total	100	100	100	100	100	100	100	100

NA - Not Available

Sources: a
Annual Statistical Digest, 1964.
b
Bank of Jamaica, Annual Reports, 1961 to 1964.
c
Barclays Bank D.C.O., Economic Survey British Guiana, p. 22.

One surprising feature of the distribution of trade in the territories is the small proportion which takes place amongst the British Caribbean territories. In 1963 imports by Trinidad and Tobago, from the British Caribbean territories represented only 2 percent of total imports and exports represented only 6 percent. In Jamaica in 1964 imports from the British Caribbean represented only 5 percent of total imports while only 3 percent of Jamaican exports went to these territories. The peculiar breakdown of the statistics in British Guiana does not permit as specific an analysis, but since only 18 percent of Guianese imports came from Commonwealth countries (except Canada) and 12 percent of exports went to them, it is reasonable to assume that trade with the British Caribbean territories accounted for a very small proportion.

Primarily responsible for this pattern of trade is the traditional structure of production inherited from the Colonial era in which the Colonies were expected to produce raw material for the "Mother Country", and import her supplies of manufactured goods. Thus the territories have traditionally been supplying sugar and cocoa to the British markets produced with British capital on British owned plantations.

The recent shift in the structure of production away from sugar and cocoa into petroleum and bauxite has only resulted in a shift in foreign dominance, away from the United Kingdom to Canada and the United States. Consequently, the territories have not been "permitted" the opportunity to develop inter-island trade relations.

This historical trend in trade relations illustrates the manner in which the commercial banks in our territories were established. While this is discussed more fully in Chapter II it is instructive to note that the British banks were the first banks established in the territories. Subsequently, with the development of trade relations with Canada, the Canadian banks were established and more recently, with the increasing connections with the United States the American banks have invaded the region. It is also important to note that the banks have always been established with the view of financing foreign trade.

From the foregoing description of the three territories several of the problems facing our territories have become apparent. However, the most important problem at the present time is the slowing down of the growth rate in the mining and quarrying sectors resulting in a slowing down in the growth rate of the entire economies. Consequently, given the high rate of population growth there has been a growing level of unemployment.

A most pressing need then, is that of diversifying the economies. Diversification of the economies could be effected in several ways, and one specific means by which this could be achieved is through the channelling of funds to the various sectors of the economies. The need for the development of local entrepreneurship is ever present, but severely restricted by several factors, not the least being, the unavailability of funds for the establishment of small business. Knowing quite well that monetary policy is not a substitute for Government's policy, we attempt, in the next three chapters to show what role the commercial banks have played in these developments and what they could and might be expected to do in the future.

CHAPTER 11

The Establishment of Commercial Banks The Currency Board System and the Role of the Commercial Bank

The Establishment of Commercial Banks

In the British Colonies of the West Indies at the beginning of the nineteenth century the money supply consisted primarily of Spanish, Mexican and Portuguese gold and silver coins but there was a sprinkling of coins from most of the other European nations. The most serious problem, and a great barrier to trade, was the rate of exchange of these coins in relation to sterling. The standard to which all coins in the British Colonies were rated was sterling, and the denominational tables effecting this were, in practice, of extreme complexity and illustrate the obstacles to trade which the currency difficulty must have raised.[1] The following table, which applies to the Leeward Islands in 1740, is a good example:

TABLE 2.1

Value of Gold Coins

	£	S
Doubloon	5	12
Spanish (or French) Pistole	1	8
Sequeen	0	14
Portuguese Moydors	2	2
French Moydors	2	2
French Lewisdore	1	8
Portuguese Johannes	6	6
Portuguese Crusads	1	16
English Guinea	1	13
French Guinea	1	13

Source: Abridged from Chalmers' "Colonial Currency", cited in A.S.J. Baster, The Imperial Banks, London, 1929, p. 5.

[1] A.S.J. Baster, The Imperial Banks, p. 4.

In an attempt to remedy the situation, the British Government tried to put "the shilling" into circulation throughout the Empire. The Treasury Minute of 11/2/1825 was an attempt at

> introducing a fixed and uniform medium of exchange for all transactions connected with the public service in the place of the various fluctuating and anomalous currencies which had been created under pressure of temporary emergency or with views of local and peculiar expendiency, in many of these colonies and possessions, during the war, and which have been productive of much private and public inconvenience.[2]

A subsequent order in Council provided that

> in all those colonies where the Spanish dollar is now, either by law, fact or practice, considered as a legal tender for the discharge of debts,....a tender and payment of British silver money to the amount of 4s.4d., should be considered as equivalent to the tender, or payment of one Spanish dollar, and is in proportion for any greater or less amount of debt.[3]

Once sterling was declared legal tender and the rate of exchange was fixed in terms of the Spanish dollar, the aim of the British Government was to supplant the use of the dollar by the shilling.[4] The scheme failed because the Spanish dollar was overvalued and served to drive the shilling out of circulation.[5] In addition, the bankruptcy of the Jamaican Government aggravated the situation.[6] Several appeals

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[2] Ibid., p. 5.

[3] R. Chalmers, "A History of Currency in the British Colonies", H.M.S.O., 1893, p. 97, cited by C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 3.

[4] Ibid., p. 3.

[5] Ibid., p. 4.

[6] Ibid., p. 4.

to the Imperial Government for currency reform resulted in the passing of the 1839 Act (3 Vic. Cap. 39) enacting:

> (1) That, as from 31st December 1840, the currency of the United Kingdom should be that of Jamaica.
>
> (2) That existing contracts in local currency should be settled at the rate of £ 166. 13s. 4d. Jamaica currency for every £ 100 sterling, and,
>
> (3) That from the same date, 'the doubloon shall be deemed a legal tender at and after the rate of £ 3. 4s., the silver dollar shall be a legal tender at and after the rate of 4s. 2d. and the several subdivisions of these coins at and after the same rates, and the gold and silver coins of Great Britain and Ireland shall be legal tender to any amount at and after the rates they pass current at in Great Britain and Ireland'. [7]

This act successfully established British token silver as legal tender. By fixing the rate of exchange between the shilling and the other currencies, it linked the colonies to the currency area of Great Britain.

The colonies in the West Indies at this time were primarily engaged in the production of sugar for the "Mother Country". At that time sugar production required the use of extensive credit. The capital needed for the purchase of estates and initial expenses of production was supplied by the original owners, who came chiefly from the United Kingdom, or by private individuals and concerns in the United Kingdom. But at this time, there was a fifteen month period between the planting of canes and the final production of sugar. During this

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[7] R. Chalmers, <u>op. cit.</u>, p. 111, cited by C.V. Callender, <u>op. cit.</u>, p. 4.

fifteen month period no income was forthcoming, and in the meantime, the expenses of production - planting of canes, harvesting, transportation to the factory for grinding, the storing of the raw sugar in barrels - had to be met. The credit for this purpose was usually supplied by merchants in England, who would have the sugar consigned to them, sell it, deduct their expenses and the amounts owed to them, and remit the balance to the planter, or ship him required supplies in lieu of, or in addition to, the cash balance.

This means that the extent of credit and the terms under which it was granted were determined by the state of the sugar industry, which in turn depended upon the external demand for sugar. Thus it would seem that the absence of banks in the territories created a great deal of hardship and uncertainties. However, while the extension of credit to the sugar industry, was an important factor, it was not the sole reason for the desire to establish banks in the colonies. The increasing retail trade in the colonies, and the institution of wage labour, which followed emancipation in 1831, increased the credit needs and made the planters more dependent upon their connections in the United Kingdom. In addition, following the abolition of slavery in the colonies, large sums of money were paid as compensation and the need for a place of safe keeping and opportunities for investment became urgent. This is clearly stated in a letter by the Governor of Jamaica to the Earl of Aberdeen dated 8th February, 1835:

> The establishment of a Branch Bank of England out of the British Islands, I have never heard mooted, but I think that nothing could be imagined so likely to be of benefit to this Colony. There is not a single responsible Bank in Jamaica. All deposits, I fear however they are not many, are placed in the hands of Merchants in Kingston, and the proverbial insecurity not only of West Indian landed property, but also of all Commercial Establishments rendering persons of thought unwilling to place their funds in irresponsible hands. I am confident that much money is idly spent, which would under other circumstances be laid by as a provision for the future; another very great inconvenience arises in the present state of the money market from the want of some such public Establishment FREE FROM LOCAL INFLUENCE (our Capitals). The state of the Exchange or, more properly speaking in the language of Jamaica, of the Premium on Bills on England appear to be now in the hands of two or three individuals, whose united efforts can cause at any time to suit their own convenience, a rise or fall in the rates of premium, or Exchange; this evil as it strikes me would be completely obviated by such a Branch Bank as I am most anxious to establish here. [8]

The need for the establishment of Commercial banks was evident, but the risks of operating branches thousands of miles away from home were great and unknown. The absence of telegraph and steamships made communication very slow and there was always the fear that while it was simple to transfer funds into the territories it might be difficult to control these funds and have funds remitted back to head office.

At this time, public interest in Joint Stock banking in England was stirred by the Act of 1826. [9] While the Act did not confer the

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[8] A.S.J. Baster, The Imperial Banks, p. 28.

[9] Ibid., p. 2.

privilege of limited liability, it permitted the formation of large co-partnerships with the power to sue, and to be sued, in the name of an official of the bank. In addition, it was possible to obtain a qualified form of limited liability by means of a Royal Charter.

The first commercial bank was established in Jamaica after 1837, when the British Government granted Royal Charter to the Colonial Banking Company "for the purpose of carrying on the business of banking in Jamaica and the British West Indian Islands, and British Guiana, and not elsewhere".[10]

It is significant that the request by the Jamaican Governor for an institution "free from local influence" was granted as the twenty year Charter permitted the bank to deal:

> generally in bullion, money and bills of exchange, and lending money or commercial paper and Government securities.....but it shall not be lawful for the said corporation to lend or advance money on the security of lands, houses, or tenements, or upon shops, nor to deal in goods, wares or merchandise of any nature or kind whatsoever.[11]

While the head office of the Colonial Bank was established in Jamaica, branches were opened in other islands of the West Indies.

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[10] Charter of the Colonial Bank, "British Parliamentary Papers 1837-1838", Vol. XI, cited by R. Samlalsingh, Money Supply - Its Role in The Economic Development of Trinidad and Tobago, p. 37. Unpublished Thesis, McGill University, 1966.

[11] C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 7.

Branches in Trinidad and Tobago and British Guiana were opened on the 16th February 1837. The objectives of the bank as stated in a newspaper advertisement in Trinidad on the 11th April, 1836 were:

> The Bank will employ its Capital in discounting Bills, having substantial names as security, in lending money upon cash (SIC) Credit upon sufficient personal security, according to the Scotch system; in dealing in Bullion and Exchanges and generally in such business only as is conformable to what are held to be the correct principles of Banking; and will be precluded from lending money on mortgage of fixed property. [12]

The establishment of the Colonial Banks in the West Indies was met by a certain degree of local opposition, since the general restrictions concerning the security on which they could make loans and advances severely restricted their usefulness to the local community. Opposition came from both Jamaica and British Guiana.

In Jamaica, a group of merchants and planters obtained a charter from the local legislature in 1837, similar to that of the Colonial Bank, incorporating the Bank of Jamaica with a nominal capital of £ 300,000 Jamaican currency with limited liability to its shareholders. However, the Ordinance (No. 3236) incorporating the Bank was subsequently disallowed by the United Kingdom Government. In the meantime, however the bank had worked up a small business, so that when news of the disallowance was received, it continued to conduct business as a Joint - Stock Company.

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[12] A Banking Centenary, Barclays Bank (D.C.O.) 1836-1936 cited by R. Samlalsingh, op. cit., p. 38.

The closing of the Bank of Jamaica only resulted in increasing demands for banking facilities which would serve local needs. In 1839, the Planters Bank was established. The authorized capital was £300,000 sterling made up of 20,000 shares of £ 15 sterling each. The shareholders had unlimited liability. Its main business was to be "banking in all its branches and the making of advances or loans on crops, produce lands, houses and other property".[13]

It would seem that the main purpose of the Planters Bank was to make up for the deficiencies left by the Colonial Bank, in relation to its loans and advances policy. By distributing its assets in the form of loans to "crops, produce lands, houses and other property" the Planters Bank placed itself in a position in which, should there be a sudden and large fluctuation in income in the territory, it would run into difficulties. This was made much more serious since a substantial proportion of domestic income at the time was derived from the production of sugar for export to the United Kingdom. Thus the level of income, and the fortunes of the bank in the colony were dependent, in the first place, upon the vagaries of the weather, and secondly, on the external demand for sugar (United Kingdom's demand), two factors over which the local inhabitants had no control.

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[13] C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 9.

In 1846, the Sugar Duties Act was passed in the United Kingdom as Britain moved towards freer trade. The Act introduced a new scale of duties on sugar entering Great Britain and provided for the abolition of all protective duties by 1854, thereby making foreign sugar more competitive with West Indian sugar.[14] In addition, emancipation had created a great deal of economic, social and political problems as the economy changed from a slave economy to a plantation economy.

These two factors resulted in a fall in both the output and price of sugar resulting in a substantial drop in income in the territories. The price of sugar fell from 48 shillings per cwt., in 1840, to 20 shillings per cwt. in 1848.[15] As should have been expected, the commercial bank which provided the credit to finance this industry found itself in difficulties. After a series of events, it was no surprise that the Planters Bank went into liquidation in 1848. The Colonial Bank, however, has continued to provide banking facilities in the West Indies since then, though it merged with Barclays Bank (D.C.O.) in 1925 and continues under the new name.

New of the proposed formation of the Colonial Bank in British Guiana reached the colony in April 1836.[16] (Apparently as a result

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[14] Ibid., p. 13.

[15] Ibid., p. 14.

[16] A.S.J. Baster, op. cit., p. 70.

of the newspaper advertisement in the Trinidad newspaper mentioned above). The local bank, The British Guiana Bank, was incorporated by ordinance No. 82 of 1836 and a petition was made to the Queen asking that Royal assent might not be withheld from the Governor's Ordinance:

> We feel grateful to Your Majesty's Government for having by the timely payment of the compensation money awarded by the Imperial Parliament rescued the colonial interests from a state of dependence on merchants and others residing in the Mother Country and we humbly entreat Your Majesty to discountenance any specious propositions from persons non-resident in the Colony, however respectable, which have the least tendency again to drain it of that capital which ought to centre in itself. The institution of a local bank is, in the humble judgement of Your Majesty's dutiful and loyal subjects of British Guiana far preferable to a Branch of any Bank originating in England and we do humbly entreat Your Majesty so far at least to foster and protect it as to give no greater privilege to any other bank than Your Majesty may be graciously pleased to confer on the Bank of British Guiana.[17]

Because of the political influence of the Colonial Bank in England, the local political influence of The Hon. Mr. Rose (who ultimately became local manager of the Colonial Bank), and certain technical irregularities of the original Ordinance, it was disallowed.[18] However, an amended Ordinance was prepared for submission to London.

At this point, the Colonial Bank petitioned directly to the Colonial Office, the Treasury and the Board of Trade to urge the defectiveness of the Second Ordinance and claims of its own organization for a fair start before competitors were allowed to enter the field with the same privileged position:

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[17] Ibid., p. 71.

[18] Ibid., p. 74.

> All that we now set out to obtain (is) a strict fulfilment on the part of Government of the terms so clearly understood between you and those gentlemen who composed our Deputation, viz. that the Bank should enjoy the countenance of the Government and that whilst you reserved every power to grant further Charters, similar to ours, such power should not be exercised until the Colonial Bank had had a fair time allowed for its Establishment or until some case of necessity for an additional bank should be made out. Nor was this concession on your part anything beyond what the importance of our case was justly entitled to - our undertakings is one of great difficulty and fraught with incalculable advantage to the Colonies at large and you seemed to view it rather as a National than an Individual Enterprise, such in fact being its character and direct tendencies.......On the fair and general ground of our recent commencement of business, of the cost, and extent, and sufficiency of the preparations which we have been forced to adopt, as well in Guiana as in all other Colonies - and the absence of all necessity, proved or even alleged for another Banking Establishment in Guiana - on these grounds we ask that the Royal assent be withheld from the Bill in question......In detail it contains as many objectionable principles as the Jamaica Act did, and we humbly submit that it ought to be dealt with in a similar way. [19]

The Board of Trade, as might have been expected, disclaimed any such arrangement as that referred to in the letter, and the opposition of the Colonial Bank was unsuccessful, the local bank having a long and useful life before it was finally absorbed by the Royal Bank of Canada in 1914.[20]

Canadian Banks

The importance of foreign trade in our territories was emphasized

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[19] Letter from the Colonial Bank to C. Poulett Thompson at the Board of Trade, cited by A.S.J. Baster, op. cit., p. 74.

[20] A.S.J. Baster, The Imperial Banks, p. 74.

in Chapter 1 and again stressed above as one of the reasons for the establishment of commercial banks in our territories. In the early eighteenth century the United Kingdom was the most important trade partner of the territories so that it was natural that the commercial banks which were established in our territories at that time were of English origin.

The establishment of Canadian banks in the West Indies was a direct outgrowth of increasing trade relations between Canada and the West Indies. Prior to the American Revolution, Canadian products had constituted a small and relatively unimportant portion of the triangular trade involving the West Indies, Europe and North America. Small quantities of fish, flour and lumber from Canada, Nova Scotia and New Foundland had found their way to the West Indian Islands in exchange for sugar, molasses and rum.[21]

With the passage of the Embargo Act in 1807 prohibiting American ships from sailing to foreign ports, the trade between the West Indies and the Maritime Colonies was boosted. They not only increased their supplies of fish and lumber to the West Indies, but also provided a strong growing market for the latter's products. In addition, the United States merchants, seeking to circumvent the restrictions of the Embargo Act, began using Halifax as an entrepôt shipping centre.

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[21] L. Ragnatz, The Fall of the Planter Class in the British Caribbean, cited by C.V. Callender, op. cit., p. 42.

The business records of the port of Halifax show that between 1819-1822 imports from the West Indies constituted approximately 14 percent of imports from all trading areas, while exports constituted nearly 73 percent. Some figures are shown in Table 2.2.

TABLE 2.2

Imports and Exports at the Port of Halifax
1819-1822

Imports	
West Indies	348,175
Great Britain	1266,339
Southern Ports of Europe	39,063
United States	618,200
Coastways	162,200
	2,435,094
Exports	
United Kingdom	128,656
Southern Ports of Europe	10,293
United States	95,801
West Indies	621,495
	856,235

Source: C.V. Callender, *op. cit.*, p. 43.

The increasing trade between Canada and the West Indies created the need for financial connections between the two areas and the United Kingdom. In the initial stages this was provided by agreements between the Colonial Bank and the Halifax Banking Company. On the 6th June 1837, the Colonial Bank appointed one of the directors of the Halifax Banking Company as their agent:

> authorizing him to place the agency permanently with the Halifax Banking Company. By this arrangement, the managers

of the Colonial Bank in the West Indies were empowered to draw on the company at thirty days sight in current dollars and the company was to reimburse itself by drawing on the Court of Directors of the Colonial Bank in London.[22]

This arrangement represented a form of inter-bank settlement. All bills drawn on it were sent to the Company which would collect a commission of one half of one percent, in addition to the brokerage charges. These arrangements continued into the first quarter of the twentieth century when the Canadian Bank of Commerce, which had absorbed the Halifax Banking Company, felt that the growth in Canada - West Indies trade warranted the establishment of a branch in Jamaica.[23]

Whereas increasing trade created the need for the establishment of Canadian banks in the West Indies, the fact that it was the Bank of Nova Scotia and not the Bank of Commerce which first opened its doors in Jamaica, is believed to be due to the personal relationship between its chief accountant, Mr. Fyshe and Mr. John Patin of the New York banking firm of Messrs. John Patin and Company, who urged Mr. Fyshe to extend its operation to Jamaica.[24] The branch was finally established in August 1889. It seems reasonable to assume that the fact that the Canadian Bank of Commerce had correspondent relationships with the Colonial Bank reduced the urgency of establishing a branch of its own in the West Indies. However, after the Bank of Nova Scotia started business in Jamaica there was no alternative but to

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[22] Victor Ross, History of the Canadian Bank of Commerce, p. 93, cited by C.V. Callender, op. cit., p. 43.

[23] C.V. Callender, op. cit., p. 44.

[24] Ibid., p. 45.

establish branches of its own. By 1920, in addition to the Bank of Nova Scotia, two other Canadian banks - The Royal Bank of Canada and the Canadian Bank of Commerce - had established branches in Jamaica.

These Canadian banks, of course, established branches in the other West Indian Islands. The Bank of Nova Scotia started business in Trinidad in 1906 but soon closed down because of staffing difficulties, and only reopened in 1954. The Royal Bank, which bought out the Union Bank of Halifax, started in 1910 and the Canadian Bank of Commerce started business in 1921.[25] As mentioned above, in 1914 the Royal Bank bought out the Bank of British Guiana.

The most recent development in foreign trade in the territories has been the increasing importance of trade with the United States which has now replaced the United Kingdom as the principal receiver of imports as shown in Chapter 1. The result of this changing pattern of trade, is of course, the establishment of the American banks in the three territories. By the end of 1966, The First National City Bank had opened branches in both Jamaica and Trinidad and Tobago, while the Chase Manhattan Bank had also opened branches in Trinidad and Tobago and British Guiana.

The Currency Board System

Prior to 1889, the currency in the British West Indies consisted of British Silver notes of the Colonial Bank, and token money. The notes

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[25] R. Samlalsingh, Money Supply - Its Role in The Economic Development of Trinidad and Tobago, p. 54.

of the Colonial Bank were secured by the general assets of the Bank and were payable in specie on demand.[26] As a result, there was no specific reserve backing for the currency circulating in the territories. In an attempt to remedy this situation the Colonial Bank Act was passed in 1889, requiring the Colonial Bank to deposit with the Crown Agents, either coin or approved securities, or both, up to the value of 25 percent of the notes in circulation.[27]

When the Bank of Nova Scotia, which was the first Canadian Bank to be established in the West Indies, began operations in 1890, its note issuing powers were deemed to be governed by the Canadian Bank Act and no specific reserves for its West Indian issues was required, nor was any limit placed on its note issue.

The Bank Notes Law of 1904[28] required all banks except those already in operation (the Bank of Nova Scotia in Jamaica and the Colonial) to deposit with the Crown Agents in London, or with Trustees in the island, securities to the full extent of their note issue. However, if the Secretary of State was satisfied that the notes were adequately secured he could dispense wholly or in part with the law.

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[26] Callender, op. cit., p. 72.

[27] Report of the West Indian Currency Committee, Cmd, H.M.S.O. 1923, cited by C.V. Callender, op. cit., p. 72.

[28] Revised Laws of Jamaica, 1953, Chapter 276, cited by Callender, op. cit., p. 72.

The Royal Bank and Bank of Commerce, both Canadian banks which started operations in the West Indies subsequently, objected strongly to this requirement contending that the provisions of the Canadian Bank Act provided such security.[29] In addition, they claimed that their notes were further secured by the Canadian Bank Circulation Redemption Fund. This was a fund to which all banks of issue had to contribute one percent of their circulation for meeting contingencies arising out of the inability of an insolvent bank to redeem its notes.

However, the Secretary of State finally agreed to have them deposit securities to the value of 25 percent of their note issue, while at the same time, retaining the right to impose a limit on their issue. Later, however, the Concnial Secretary offered to consider each application on its own merit.[30]

The issue of notes by a Colonial Government was strictly forbidden by the British Government until after 1900. This was based on the fear that an insolvent government might be tempted to issue large quantities of worthless paper money. This restriction was applicable in England itself, up to the middle of the nineteenth century, since the issue of notes was not considered to be the responsibility, or function of the Government, its role being confined to the regulation

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[29] Report of the West Indian Currency Committee, cited by C.V. Callender, op. cit., p. 72.

[30] C.V. Callender, op. cit., p. 73.

of the coinage. Note issue was the prerogative of the private and chartered banks. Not until the middle of the nineteenth century was it even considered the responsibility of the government to regulate and control the bank notes issue.[31]

In 1903 in Trinidad and Tobago, and 1904 in Jamaica, and later in British Guiana, Boards of Commissioners of Currency consisting of three persons - The Colonial Secretary, The Treasurer and one other person appointed by the Governor, and who did not hold office under the Crown - were appointed to issue and reissue notes in exchange for coin which was to be either gold or silver at the option of the Commissioners. Thus individual Currency Boards were established in our three territories.

While the reserve backing of notes issued by the banks was only 25 percent, the reserve backing of the government was 100 percent. Part of the reserve backing for the government's notes was in coin, while the other portion consisted of securities of the United Kingdom, The Dominion and other Colonies, but not of securities of the issuing government.

A Note Guarantee Fund was established into which at least two-thirds of the backing had to be deposited. However, the law provided the Governor, on the approval of the Secretary of State,

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[31] R. Samlalsingh, Money Supply - Its Role in The Economic Development of Trinidad and Tobago, p. 45.

with the power to reduce the fixed proportion to one half, provided there was no danger about the convertibility of the notes outstanding.

Under this system, since the notes were defined in terms of sterling and freely convertible into sterling (the Jamaican notes were even denominated in pounds), every note issued was considered as being available for conversion into pound sterling, or its equivalent in international currencies. Consequently, the 100 percent reserves ensured that the governments would not over issue notes.

Because of the possibility of fluctuations in the market price of the securities in the Note Security Fund, The Depreciation Fund was established. The Commissioners were requested to deposit 1 percent of the cost price of the securities into the Depreciation Fund until it formed 10 percent of the investment portion of the Note Guarantee Fund.[32] When this is added to the 100 percent backing of the note issue, the total amount of the reserves held for currency issues amounted to 110 percent.

The issue of notes, then, was a potential source of income, because the income earned on the investment in securities was to be paid to the General Revenue of the territory, after contributions to the Depreciation Fund, and payment of the expenses incurred in operating the Board. Nevertheless, there was also the possibility of losses if there were adverse fluctuations in the price of the securities. However, the fact that coin is a non-earning asset resulted in several attempts to have the proportion in coin reduced, or completely removed.

[32] C.V. Callender, op. cit., p. 73.

By the outbreak of World War 11, several alterations in the principles of the Board's operations were made. The fixed proportion to be deposited in coin was reduced first to one-third and then one-quarter and later removed altogether. In its place the Board was able to substitute a "Liquid portion" for the fixed portion. This liquid portion could be held in cash or on deposit with the Treasury, or the Bank of England, or in Treasury Bills or lent out at call, or invested in such readily realisable securities as may be approved by the Secretary of State.[33] Since the conversion of local notes into sterling necessitated the sale of securities, to avoid small transfers a minimum tender was established, and a conversion fee was charged.

In the Post-War period there was a strong interest in political federation of the West Indies. Trinidad and Tobago, Jamaica, British Guiana and Barbados had established the Sterling Exchange Standard separately, but several inter-governmental agreements had been established to render, as legal tender, the note issues of the various territories, which, since they were defined in sterling, were of equal value anyway.

While Jamaica continued to operate a separate Currency Board, the Eastern Caribbean Currency Board[34] comprising of Trinidad and Tobago, British Guiana, Barbados, the Leeward Islands and the Windward Islands, was formed in 1946. The Board's main function was to issue

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[33] Ibid., p. 74.

[34] The Official title is Board of Commissioners of Currency, British Caribbean Territories (Eastern Group).

and redeem notes in exchange for sterling at a fixed rate of \$1.00= £ 0.4s.2d. The characteristics of the previous Currency Boards were maintained and income earned on investments was to be distributed to the various territories in fixed proportions. (Trinidad and Tobago - 55 percent, British Guiana - 25 percent, Barbados - 10 percent, the Leeward Islands - 4 percent, and the Windward Islands - 6 percent). The office of the Board was established in Port-of-Spain, Trinidad, and Crown agents were appointed in London.

Another development in the post-war period is the fact that several attacks have been made on the Currency Board System by theoretical economists. (Some of these will be discussed in the next section). These attacks were made because of two important reasons. In the first place, the important benefits of stability and guaranteed external convertibility conferred under the Currency Board System, were greatly reduced by the instability, and subsequent inconvertibility of sterling in the 1930's. In the second place, the important role of domestic savings in economic development became more apparent, and as a result, it was believed that the 100 percent reserve backing which the Currency Board required, made it extremely difficult to mobilize domestic savings for economic development.

The Currency Board Regulation requiring 100 percent backing meant that the colonies could not mobilize their own resources fully.

In an economy such as Canada, for example, when people accumulate financial assets they forego the consumption of goods and services. If these financial assets are Canadian Saving Bonds, or other local assets, the resources are made available to the Canadian Government or local investors and could be utilized by Canadians. This would merely represent a transfer of resources within the same territory. The larger the proportion of currency reserves invested in Canadian securities the smaller the proportion of resources lent to foreigners and the larger the amount of savings available for economic development. Under the Currency Board System, however, any act of savings in the Colonies, because of the 100 percent backing and investment in securities in the London money market, meant that resources would be lent to the United Kingdom.

It must be remembered that the Colonies were not permitted to invest in securities of their own territories so that there was no possibility of retaining any part of these resources. Nevertheless, investment in these securities provided an income, a guaranteed one in the London Market, so that part of the resources was in fact transferred back to the territories.

The large increases in investment in the 1950's stimulated by the Korean War and The Suez Crisis resulted in large increases in currency issues in the Colonial territories. Because of these attacks by theoretical economists, the rigidity and inflexibility of the Currency Board System was recognized by the Colonial office in a dispatch dated

10th September 1954.[35] The Secretary of State for the Colonies stated that efforts to increase development would give rise to:

> a continuing need for mobilizing all these financial resources available to the Governments which may be appropriately used. Failure to mobilize these resources could increase the need for external finance or if external finance is not available in sufficient quantity to make it necessary to reduce the level of development below that which is desirable......... the total financial needs of the Colonies will be of such size that careful consideration will have to be given to the utilization of funds available in the currency reserves.[36]

Since irrespective of how low the demand for currency falls, there will always be some proportion that will be necessary to effect a money economy, this portion, the "hard core", would never be presented for redemption. This meant that reserve backing on the "hard core" was unnecessary.[37] Thus in theory this portion could be invested in local securities. The size of the "hard core" would vary from Colony to Colony, but it was suggested, that regardless of the size of the actual "hard core", considerably less than this amount should be utilized for local investment.[38] A maximum limit of 20 percent was established for this fiduciary issue.

While the two Currency Boards were authorized to invest part of their assets in local assets, by the end of 1960, the Eastern

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[35] Colonial Office, Reference, Fin.185/01. Circular 859/54, 10th September, 1954.

[36] Ibid.

[37] C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 93.

[38] Ibid., p. 93.

Caribbean Currency Board had used the power only sparingly.[39] However, by September 1960, the Jamaican Government had, because of several arrangements with the Secretary of State, invested an amount equal to 30 percent of its currency issue in local securities.[40]

With these modifications, the Currency Board continued operations until 1960, in Jamaica, 1964 in Trinidad and Tobago and 1965 in British Guiana, when local legislations were passed transfering the power of note issue to the Bank of Jamaica, the Central Bank of Trinidad and Tobago and the Bank of Guyana respectively.

There is little doubt that the Currency Board system in our territories was of great importance and usefulness. Prior to its establishment, the currency practices were a "hotch-potch of make shift employment of other countries' currencies, sometimes more than one of them circulating together, and sometimes with a unit of account different from the dominant unit of circulation".[41] Thus one of the objectives of the establishment of the Currency Boards was to regularize and simplify local conditions by providing, within each territory, a coinage and note issue, as well as a unit of account, identifiable as its own. To this end it was completely successful.

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[39] Arthur I. Bloomfield, Central Banking Arrangements for The West Indian Federation, Studies in Federal Economics, No. 2, Institute of Social and Economic Research, U.C.W.I., 1961, p. 6.

[40] Ibid., p. 93.

[41] W.F. Crick, Commonwealth Banking Systems, Clarendon Press, Oxford, 1965, p. 3.

The importance of foreign trade in G.D.P. and foreign investment in Gross Capital Formation has previously been emphasized. The guarantee of unlimited exchangeability with sterling in London, at a fixed rate, which the Currency Boards provided, no doubt, was an important stimulus to both foreign trade and foreign investment and could never be over-emphasized.

The provision of 100 percent reserve backing of local currency issues with sterling was another important advantage. In this way any propensity which the Governments might have had for inflationary spending was curbed; in addition, the note issuing was a source of income through investments in gilt-edged securities, and permitted the territories the use of a highly developed credit and capital market.

In spite of these virtues, however, the Currency Board System, had several defects inherent in its actual operations and these defects have become a source of great controversy in the post war years. To some of these controversies we now turn.

The Role of Commercial Banks Under the Currency Board System.

Under the Currency Board System, because of the automatic exchange of domestic currency into sterling and vice-versa, it was believed that an automatic and inflexible relationship existed between the money supply and the balance of payments. If this is so, then there is little or no scope for domestic monetary policy since monetary policy is effected through changes in the money supply. Assuming there was a surplus in the balance of payments resulting from an increase in exports. This would mean that when foreigners paid for these exports sterling would be deposited with the Currency Board, and the money supply in the territory would be increased automatically. Alternatively, a deficit in the balance of payments would automatically reduce the money supply.

However, this argument is subject to several criticisms. In the first place, the argument assumes a constant velocity in the circulation of money. This assumption is not valid since the factors influencing the velocity of circulation of money are not normally stable as Irving Fisher[42] assumed, particularly in our territories. "The individual payment habits" in our territories wherein there is a substantial proportion of the population self employed cannot be stable. "The system of payments in the community such as the frequency of receipts and disbursements and the regularity of receipts and payments" is not stable. This cannot be stable in our territories because of the very high level of unemployment, underemployment and part time employment and the high degree of labour mobility.

Secondly, the seriousness of domestic price inflation and deflation is reduced by the high propensity to import by the local community. And thirdly, and most important, it does not take the banking system into account.

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[42] Irving Fisher, The Purchasing Power of Money, rev.ed., (New York, 1926), p. 172.

Under the Currency Board System, the commercial banks, through their credit policy, could either aggravate or modify fluctuations in the money supply. In addition, the banks themselves could initiate changes in the money supply by reducing overseas assets and borrowing from head office in order to take advantage of increasing local opportunities.

Assuming a surplus in the balance of payments resulting in an increase in the money supply. If this increased stock of money were deposited into the banks, there are several alternatives open to the banks. They can:

(1) keep it in their tills,

(2) increase loans and advances and/or

(3) invest it in short term assets abroad.

The banks, like any other profit making institution will not keep it in their tills as it would yield no income. If loans and advances were increased then the money supply would be increased by the amount of the increase in loans and advances. If foreign assets were purchased there would be no change in the money supply and if the second and third policies were combined the money supply would be increased by less than the surplus in the balance of payments.

As a result, it was recognized that in spite of the fact that changes in the balance of payments were important in determining the money supply under the Currency Board System, the policy of commercial banks also played an important role. However, recognition of the important role of the commercial banks initiated another controversy, as to whether the balance of payments was dependent on the money supply or the money supply was dependent on the balance of payments. This controversy has been one of the most highly debated topics in Colonial economic theory, and we believe that it was only settled by C.Y. Thomas'[43] famous article in 1963.

C.Y. Thomas' argument is essential to our analysis so it is reproduced here in great detail:

> Assuming two types of monetary institutions (1) A Currency Board and (2) commercial banks which are branch banks of metropolitan banking concerns, in a hypothetical economy. The Currency Board backs its liabilities (notes and coins) by 100 percent sterling reserves. The commercial banks do not adhere to a stable cash or liquid assets ratio in relation to total deposits. A fixed exchange rate between the currency of our hypothetical economy and sterling is maintained. National income is comprised of government expenditure, consumption, investment and exports. Exports are the largest single independent variable in national income determination. Total monetary assets of the community are the liabilities of the Currency Board (notes and coins) plus the liabilities of the commercial banks (total deposits).

Assuming an overall equilibrium with exports greater than imports. This is reflected in an excess of domestic saving over domestic investment. This increased saving is equal to the amount of

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[43] C.Y . Thomas, "The Balance of Payments and Money Supplies of a Colonial Monetary Economy", Social and Economic Studies, Vol. 12, No. 1. March 1963, pp. 27-36.

accommodating lending abroad, and this could be either loans to foreigners, reduction of foreign indebtedness or an increase in foreign assets.

On the above assumption the traditional argument [44] supporting the link between the balance of payments and the money supply emphasized that the way in which the community holds this excess savings becomes not only relevant to the determination of the money supply but also explains the extent to which the balance of payments surplus generates an increase in the money supply. Given a choice of two monetary assets, the community can hold either currency or bank deposits. If it chooses currency, the Currency Board increases its liabilities to the extent of its acquisition of foreign assets. If it chooses bank deposits, the sale of sterling by the public to the commercial banks is reflected by an equal increase in deposits with the commercial banks. At this point the hypothetical economy has an increased supply of money equivalent to the surplus in the balance of payments. While the Currency Board has a fixed relationship (1 : 1) between its foreign assets and its domestic liabilities, the commercial banks have no such fixed relationship. As a result the commercial banks can autonomously change the money supply. Theoretically the banks may:-

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[44] The best exponent of the Traditional Argument is J.O. Olakampo, "Monetary Management in Dependent Economies", Economica, Vol. XXVIII, No. 12.

(1) retain fixed ratio

(2) lower the ratio or

(3) raise the ratio of liquid assets to total deposits.

This shows that the link between the balance of payments and the money supply is not automatic. Nevertheless, it is argued that the balance of payments is the independent variable and the money supply is the dependent variable. It is thus claimed that changes in the money supply at any given time are determined by changes in the external assets of the Currency Board, by changes in the external assets of the commercial banks and changes in the internal credit created by the banks. These determinants of changes in the money supply are closely related to the balance of payments, they are dependent and not independent variables in the determination of the money supply.

If the above argument were true, since monetary authorities desire to change the money supply in order to affect employment and output, there would be little or no scope for monetary policy, since the money supply would be dependent on the balance of payments. In addition, since the Colonial territories depend for a large proportion of G.D.P., on the exports of a few primary products, over whose prices they have no control, there would be little scope for any domestic policy.

Thomas, however, emphasized that the balance of payments and the determinants of the money supply are both interdependent because the autonomous actions by the commercial banks assure this. Assuming that the money supply is increased because of a balance of payments surplus, this Thomas calls the "primary" increase in the money supply. However, the commercial banks can further act autonomously on the money supply in so far as

(1) they have a fractional reserve system and

(2) their liquid assets ratio can vary.

It is because commercial banks can act autonomously that the balance of payments can remain in a surplus (under our example) or conversely in a deficit. While the "primary" increase in the money supply is dependent on the initial balance of payments surplus, after this, the balance of payments becomes dependent on money supplies. Whether this balance of payments surplus continues depends entirely on the actions of the monetary authorities.

Assuming, there is disequilibrium in the balance of payments because total payments are in excess of total receipts. If this excess of payments over receipts is not accomodated by foreign loans, by foreign repayments of debt or by sales of overseas assets, two factors are evident:

(1) Residents must be dishoarding. This can continue only until cash balances reach a minimum the community wishes to hold. Eventually, the continuing sales of cash balances to the monetary authorities (Currency Board and commercial banks) will lead to an increased scarcity

and cost of credit thereby restricting aggragate activity enough to bring the balance of payments into equilibrium. If this occurs a current imbalance is self correcting.

(2) The only other way the current imbalance can be supported (and this is not self correcting) is by an increase in currency or bank deposits. "It is because of this fact that, in a real sense, the continuing balance of payments situation is dependent on the money supply".[45] In addition, the important point to note here is that to sustain a balance of payments disequilibrium of the nature we are assuming, the change in the money supply must be opposite the "primary" change that is automatically induced, and therefore clearly requires a policy decision by the commercial banks. In our example this means that in the light of excess payments, when the money supply is decreasing to sustain this disequilibrium the authorities must increase the money supply.

In our model, the Currency Board will be unable to increase currency issues since it is faced with a situation in which domestic currency is surrendered to it in exchange for sterling. This represents an equal fall in liabilities and assets. This contraint is imposed by the 1 : 1 ratio of liquid assets and total liabilities. Similarly, the commercial banks will be initially faced with a reduction of deposits when residents try to obtain sterling. This repre-

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[45] C.Y. Thomas, op. cit., p. 29.

sents the "primary" fall in the money supply. When the liquid assets of the commercial banks fall they can either restrict their credit, increase it, or keep it constant due to the varying ratio of liquid assets to total liabilities. Only if they increase credit to a greater extent than the primary fall in the money supply can the balance of payments continue in deficit. In this sense, then, the balance of payments is dependent on the money supply ie., on the "autonomous" actions of the commercial banks.

The recognition that the commercial banks play an important role in determining the money supply means that by controlling the banks the Monetary Authorities could theoretically affect the money supply and through changes in the money supply influence output and employment in Colonial, dependent economies.

CHAPTER III

The Commercial Banking System

General Characteristics

The West Indian Islands are equipped with a relatively efficient and modern commercial banking system. The commercial banks are all branches of large metropolitan banking concerns, from United Kingdom, Canada and United States, which operate branches in several parts of the world. Table 3.1 shows the size of the various banks in terms of the number of branches.

TABLE 3.1

No. of Branches

Banks	Total Branches	West Indies Branches
[a] Barclays Bank D.C.O. (1960)	1200*	100*
[b] Bank of Nova Scotia	697	36
[b] Canadian Bank of Commerce	1325	19
[b] Royal Bank of Canada	1083	34

* Approximate number.

Source: [a] Arthur I. Bloomfield, Central Banking Arrangements for the West Indian Federation, p. 7.

[b] Dominion Bureau of Statistics, Canada Yearbook, 1966, p. 1065.

The American banks not shown in Table 3.1 are the Chase Manhattan and the First National City Banks. The importance of these two banks either locally or internationally will not be reflected in the number of branches because of the unit banking tradition of American banks as opposed to the branch banking system of Canada and the United Kingdom.

In spite of the large scale and international nature of its operations, commercial banking in the three territories is relatively underdeveloped. By using branch density as an index of development, we observe that in Trinidad and Tobago, there was one branch for every 16,727 persons in 1965.[1] In Jamaica in 1964 there was one branch for every 24,000 persons[2] and in British Guiana there was one branch for every 23,000 persons[3] in 1962. This compares unfavorably with both Canada and the United Kingdom, the two countries in which branch banking is most developed. In Canada in 1963 there was one bank for every 2,153 persons[4] and in the United Kingdom one for every 4,000 persons[5] in 1964.

Of greater importance, however, is the fact that not only are the branch density ratios low but the banks have been concentrated in the cities and towns in which expatriate enterprise and/or government

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[1] Interview conducted by the author at the Central Bank of Trinidad and Tobago, July 1966.

[2] Jamaica Yearbook, 1964, p. 65.

[3] C.Y. Thomas, "Monetary and Financial Arrangements in a Dependent Monetary Economy: A Study of British Guiana, 1945-1962", (Supplement to Vol. 14, No. 4, December 1965, Social and Economic Studies), p. 39.

[4] Canada Yearbook, 1965, p. 1067

[5] Britain Official Handbook, 1965, p. 410.

enterprise are well established leaving the country districts unserviced. This is evident in the branch density ratios of the three capitals, for in Port-of-Spain, Trinidad, the ratio was about 1 to 2,000, in Kingston, Jamaica, the ratio was about 1 to 5,000 and in Georgetown, British Guiana about 1 to 1,500.

However, within recent years there has been a marked increase in the number of branch offices. At the end of 1955 there were about 30 bank offices in Trinidad and Tobago, while by the end of 1965 there were 50 offices.[6] In Jamaica at the end of the Second World War there were only 25 branches.[7] By the end of 1964 the number was more than doubled, reaching 70 offices.[8] In British Guiana, where as there were only four branch offices in 1950, in 1954 there were 11 and by 1961 there were 26 offices.[9]

Another index of banking development, demand deposits as a proportion of the money supply, (currency plus demand deposits) also reflects the underdeveloped nature of the banking system. In Trinidad and Tobago in 1963 demand deposits represented 42 percent of the money supply,[10] in Jamaica in 1964[11] it represented 66 percent and in

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[6] Chamber of Commerce, Money on the Move, 1965.

[7] C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 95.

[8] Jamaica Handbook, 1965.

[9] C.Y. Thomas, op. cit., p. 81.

[10] Annual Statistical Digest, 1963.

[11] Bank of Jamaica, Report and Statement of Accounts, 1964, Table 3.

British Guiana it represented 33 percent in 1964.[12] However, in Canada in 1964 demand deposits were 80 percent[13] of the money supply while in the United Kingdom in 1964 it was 70 percent.[14]

The low ratio of demand deposits to the total money supply emphasizes an important characteristic, viz., the importance of cash in business transactions as the chequing habit is not yet well developed. This, no doubt, is one of the reasons why banks have not found it profitable to establish branches in many of the rural areas. However, the fact that banking facilities are not available to a large section of the population leaves no recourse but to conduct transactions in cash.

Another factor contributing towards this high propensity to use cash in the territories is the inconvenient hours in which the bank offices are opened to the public. Banks in our territories are opened to the public from 8.00 a.m. to 12.00 noon from Monday to Friday, and from 8.00 a.m. to 11.00 a.m. on Saturdays. This means that the bank offices are closed to the public during the lunch hour, generally 12.00 noon to 1.00 p.m., which would be the most convenient time for many people to use the bank.

Another important characteristic of commercial banking in the economies is the integration of this sector with the money market of the United Kingdom. Several factors contribute towards this.[15]

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[12] Quarterly Review of Financial Statistics, March 1965.

[13] Canada Year Book, 1966, p. 1058.

[14] Annual Statistical Abstract, 1966, p. 297.

[15] (Thomas emphasized these points in his analysis of the situation in British Guiana).

(a) Until recently there has been no local securities or money markets in which the commercial banks could deal.

(b) All the banks are branches of large international organizations.

(c) The original dominant position of the United Kingdom in the external trade and payments of our territories, later the increasing trade with Canada, and more recently closer links with the United States.

(d) The absence of any local banking movement which might have exerted pressure in favor of a local market to satisfy their needs.

(e) The convertibility guarantee of the Currency Board which eliminates some of the major elements of risks involved in banking on this basis. Thus, for example, both the Canadian and American banks conduct their business through their London offices. In this way the Currency Board provisions make it unnecessary for it to provide cover for its local liabilities, against movements in exchange rates.

This close link with the money market means that changes in the British Financial and economic development have a direct impact on the economic development of the territories. Thomas notes[16] the

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16 C.Y. Thomas, op. cit., p. 40.

interdependence of these factors:

> The absence of a local money market in effect makes cash, a non-earning asset, the only available local asset. This encourages the banks to hold their liquid balances abroad, while convertibility provisions of the Currency Board reduce the risks involved in doing this. In addition, the banks are engaged widely in financing domestic production for the United Kingdom Market and since they are branches of large international concerns, adjustment to their local portfolio of assets can take place with some independence of local economic conditions.

The most striking evidence of this is the effects of changes in the United Kingdom Bank Rate. Because of the peculiar organization of the British Financial System a change in the Bank Rate causes a change, in the same direction, of the whole structure of interest rates in the United Kingdom. This is because, unlike Canada and the United States, commercial banks do not borrow from bankers because it is thought to be a sign of weakness.[17] Between the Bank and the commercial banks there is a small group of Discount Houses, holding readily negotiable assets on the basis of readily callable loans from the banks. The Bank of England could be called upon to lend to the discount houses so enabling them to pay off the "money at call" they ordinarily borrow from the clearing banks. The additional cash needed by the banking system comes into existence as the Bank of England lends and it is channelled into the reserves of the clearing banks by route of the discount houses.

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[17] R.S. Sayers, Modern Banking, Oxford, Clarendon Press, (Sixth Ed.), 1964, p. 103.

Since the Discount Houses have made it a practice of carrying quite homogeneous portfolios of commercial bills, and in recent years treasury bills, it has been feasible for the Bank of England to keep the bank rate above such bills so that when the Discount Houses are "forced into the Bank", as the saying goes, they lose money on their borrowing. Traditionally, this penalty rate has served to keep borrowing from the Bank of England to a minimum and to make the interest rate structure highly sensitive to monetary actions carried out through the coordinated use of open Market Operations and Discount Rate policies.

Because of the interconnection between the local commercial banks and the financial markets of the United Kingdom changes in these rates are transmitted to the territories directly and with a very short time lag. This has led several economists to claim that the banks adjust local credit conditions to foreign economic circumstances. Thus, H.C. Wallich[18] states:

> If interest rates were raised in, say, the United Kingdom as a result of a rise in the Bank Rate and the usual accompanying measures, interest rates would be raised more or less equally by all the branches of that bank operating throughout the world without any special reference to the needs of circumstances of the individual overseas territories involved.

The post war experience in the three territories substantiates this claim to a certain extent. The evidence produced in Appendix Table 1.2 is scanty but illustrates the point quite clearly.

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[18] H.C. Wallich, Monetary Problems of an Export Economy: The Cuban Experience, 1950, p. 165, cited by C.Y. Thomas, op.cit., p. 70.

This is easily seen in the events of 1958 when the United Kingdom Bank Rate was reduced five times to percentages, 6, 5-1/2, 5, 4-1/2, and 4, respectively. The effect of these reductions was that within a period of less than one month after the change, both the minimum overdraft rates and the minimum loan rates in the three territories were reduced almost on the same day and by identical amounts. Thus the minimum overdraft rates in our three territories were reduced to percentages, 7, 6-3/4, 6-1/2, and 6, respectively, while the minimum loan rates were reduced to percentages, 6-1/2, 6-1/4, 6, and 5-1/2, respectively. This evidence, in Appendix Table 1.2 shows that this behavior is related not only to reductions in the rates but also to increases in the rates.

However, in spite of this direct interconnection a more accurate analysis of the effects of interest rates changes in the United Kingdom on changes in the lending rates of the commercial banks in the territories must take into consideration two very important points:[19]

(a) The dominant position of expatriate banking and expatriate enterprise in the economies.

(b) The absence of local money markets and effective Governmental control over the commercial banks' movements of funds.

Under these circumstances the local banks are "potential competitors with their own Head Office".[20] This is because a local subsidiary of a foreign owned company can borrow from the local banks as well

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[19] C.Y. Thomas, op. cit., p. 70.
[20] Ibid., p. 70.

as obtain funds from its head office. The absence of effective control on the movement of funds between the territories easily permits the obtaining of loans in the United Kingdom and having them transferred to the territories or vice versa. In addition, there is nothing to prevent local residents and local enterprises, and/or foreign residents and foreign enterprises from switching their deposits to and from the United Kingdom.

This means that rates of interest in the three territories can never be allowed to deviate greatly from those of the United Kingdom. If it does then, there will be a mass movement of funds between the two territories. This situation is peculiar, not only to these territories, but very similar to the relationship between Canada and the United States. If at any time interest rates are substantially higher in Canada than the United States there will be an inflow of funds, particularly of the short term variety, into Canada.

In showing the interconnection of the two markets Professor C.L. Barber emphasizes the importance of interest rate differentials between the two countries. The need for higher interest rates in Canada in the early post war years is noted:

> It is possible that if higher interest rates had prevailed in Canada, assuming the United States was still supporting bond prices, a large inflow of United States funds would have occurred... the incentive to invest in Canadian Securities would clearly have been substantial, but it would have been offset, in some degree by the uncertainty over future movements in the exchange rate. [21]

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21 C.L. Barber, "Post War Monetary Policy, 1949-1954", Canadian Journal of Economics and Political Science, Vol. XXIII, August 1957, No. 3, p. 357.

An extremely important point noted here is the fact that uncertainty over future movements in the exchange rate would have deterred the movement of funds. In our three territories, however, there has not been any uncertainty of future changes in the exchange rate. The Currency Board System guaranteed this. Consequently, the interest elasticity of capital flows has been high.

The Asset Portfolio

Professor J.A. Galbraith[22] emphasizes that although a bank does many things, its main activity is to supply funds to the community. Its output is the form in which it supplies these funds, and the amount supplied in each form can be taken as the measure of its output activity. The two categories into which its output can be divided are "customer Credits" and "open market credits" or more loosely, loans and securities.

All credits which are negotiated directly by the bank with the borrower, and which are usually not subject to disposal prior to maturity are known as customer credits. These credits are subject to risk of default on principal and interest. Open market credit refers to all credits acquired in the open market or on an impersonal basis and which are held subject to possible resale in that market. In practice, this category generally reduces to special short term money market assets and to securities of the central government. The total amount of funds that a bank can supply to the community by way of loans and securities depends generally on its cash reserve and cash reserve ratio.

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[22] J.A. Galbraith, The Economics of Banking Operations, McGill University Press, 1963, p. 61.

Liquid Assets

An analysis of the asset portfolio of the commercial banks in the three territories shows that there have not been any fixed liquidity ratios. Table 3.2 shows this:-

TABLE 3.2

Liquid Assets as % of Total Assets

	Trinidad and Tobago [a]	Jamaica [b]	British Guiana [c]
1951	55.9	18.1	16.4
1952	58.5	19.0	16.5
1953	61.5	20.7	14.6
1954	63.6	22.9	14.9
1955	56.1	16.7	14.0
1956	60.0	34.4	16.5
1957	69.2	21.9	16.6
1958	63.2	8.8	15.3
1959	58.5	8.9	12.3
1960	49.1	8.6	10.7
1961	38.5	3.4	13.3
1962	29.5	7.3	12.1
1963	36.6	11.2	49.0
1964	25.8	16.3	49.0

Source: [a] Annual Statistical Digest, 1964, Table 160.

[b] Economic Survey of Jamaica, 1958-1964 and Bank of Jamaica Annual Reports, 1962-1964.

[c] Quarterly Review of Financial Statistics, March 1965 and Economic Survey of British Guiana, 1965.

Until very recently, there were no governmental requirements controlling liquidity ratios in the territories and, as a result, the commercial banks did not find it necessary, nor indeed profitable, to maintain one. This is evidenced by the high and widely fluctuating ratios in all three territories. The necessary, if not sufficient, conditions for the operations of a fixed liquidity ratio is that the factors which are likely to affect the demand for the bank's liquid assets should be reasonably predictable, since a bank's liquidity ratio is in reality "an abbreviated abstraction of the factors likely to affect the demand for liquid assets".[23]

In Canada, United States and United Kingdom commercial banks have maintained fixed, low and reliable liquidity ratios because the demand for these liquid assets has been relatively stable and predictable. This is a result of several circumstances some of which are:-

(1) The structure of production and exports does not lead to sudden and large fluctuations in income and/or employment.

(2) There has been a high degree and long period of political stability.

(3) The financial markets in these territories are well developed. This being so, banks can maintain the minimum amount of liquid assets, since they can move into and out of these assets with relative ease and little fear of capital loss. In addition, the presence of a central bank as a lender of last resort, willing and prepared to lend unlimited amounts of money at the bank rate, reduces the necessity of keeping "surplus" funds.

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[23] C.Y. Thomas, Monetary and Financial Arrangements in A Dependent Monetary Economy, A Study of British Guiana, 1945 to 1962, p. 41.

(4) There is no doubt that Governmental requirements controlling liquidity ratios in Canada and United States are partly responsible for fixed liquidity ratios, but there are reasons to believe that if there were no Governments' regulations the ratios would still be stable and probably much lower. In the United Kingdom there are no government regulations, but a history of sound banking and custom has led to a situation in which liquid asset ratios are low and stable.

As pointed out in the earlier chapters, the fact that our territories depend for a large proportion of G.D.P., on the export of a few primary products over whose price they have no control, means that the potential for large and sudden fluctuations in income and/or employment is ever present. In addition, the absence of the well developed capital market means that the commercial banks have to be cautious and so be prepared for large and sudden demands for funds from them.

These ratios fluctuated most widely in Trinidad and Tobago being above 50 percent between 1951 and 1959 reaching a high of 69.2 percent in 1957. However, since 1960 there has been a noticeable drop reaching 26 percent in 1964. Whereas there have been similar fluctuations in both Jamaica and British Guiana the ratios have not been as high. In Jamaica the ratio was below 20 percent in most years between 1951 and 1964, reaching a low of 3.4 percent in 1961, while in British Guiana throughout most of the period the ratio was close to 15 percent reaching a low of 10.7 percent in 1960. However, in the early years of the 1960's there has been a tremendous increase in British Guiana as the ratio jumped to approximately 50 percent.

While the above characteristics necessitated the maintenance of relatively high liquidity ratios, the high and widely fluctuating ratios in Trinidad and Tobago and British Guiana in the 1960's as opposed to the relatively low ratios in Jamaica can be partly accounted for by the political unrests in Trinidad and Tobago in 1956 and in British Guiana in 1961. (These factors will be considered in greater detail in a later section). The liquid assets of the commercial banks in the territories consist mainly of "cash" and balances due by banks abroad".

Cash

The cash holdings of the commercial banks refer to holdings of local currency. The quarterly cash holdings of the commercial banks in the territories are shown in Table 3.3.

TABLE 3.3

Quarterly Cash Holdings of Commercial Banks

(Millions of Dollars)

	Trinidad and Tobago [a]	Jamaica [b]	British Guiana [c]
1961			
1st Quarter	5.8	9.2	3.0
2nd "	8.0	5.3	3.1
3rd "	7.0	4.8	2.6
4th "	12.7	8.6	6.4
1962			
1st Quarter	8.2	4.8	3.6
2nd "	10.2	5.3	3.0
3rd "	8.8	5.3	2.0
4th "	13.5	11.0	5.0
1963			
1st Quarter	7.2	5.8	3.4
2nd "	8.2	5.8	3.2
3rd "	10.3	6.7	3.5
4th "	14.4	11.0	6.4
1964			
1st Quarter	8.9	9.0	3.0
2nd "	12.2	8.6	3.9
3rd "	11.2	7.7	3.4
4th "	19.8	11.0	5.6

Sources: a

Quarterly Economic Report, 1962 to 1965.

b

Economic Survey, Jamaica, 1962 to 1965.

c

C.Y. Thomas, op. cit., and Quarterly Review of Financial Statistics, March 1965.

In the three territories there is a seasonal tendency for bankers' cash to rise significantly in the fourth quarter of most years and to fall quickly by the first quarter of the following year. This is a product of several circumstances, the chief of which are:-

(a) Sugar production and processing in the three territories, as well as rice production and processing in British Guiana, reach their peak towards the end of the year. Hence there is a strong demand for cash.

(b) There is a noticeable tendency towards a high level of Christmas spending in the territories.

(c) The practice of government and private enterprise to pay December salaries and wages before Christmas. This means that two monthly payments are made in quick succession, added to which there is the tendency of paying large bonuses and "back pay", during this period.

(d) In Trinidad and Tobago there is a much more noticeable increase, during the fourth quarter, in many years the increase being more than 100 percent over the first quarter. This is because, in addition to the above factors, the Carnival season, which is a period of festivity and high spending, comes shortly after Christmas.

As previously mentioned, the high propensity to use cash in the territories results in a strong demand for cash. With a high propensity to consume in the three territories, the money is quickly spent and finds its way back to the commercial banks through businessmen and retailers. Cash, being a non-earning asset, is held by the commercial banks only as long as it is absolutely necessary. The convertibility guarantees of the

Currency Board enabled the banks to transfer these funds to the United Kingdom without fear of loss, and as a result these funds were transferred out of the territories at the end of the first quarter and brought back at the beginning of the fourth quarter.

It is reasonable to argue that if there were a well developed money market in the territories, some of these funds would have been invested there rather than transferred out. As Thomas[24] points out "if a local money market existed, it is certain that the banks would have held some of this redeposited cash in an income-earning asset".

Balances due By Banks Abroad

Balances due by Banks Abroad (hence forth-Foreign Balances) represent assets of our commercial banks deposited at some foreign monetary centre but are primarily money at call in London. These balances are shown in Table A. 1.1.

Foreign balances measure the extent to which local liabilities are not matched by holdings of local assets. Consequently, whenever these balances are positive, they represent an export of capital by the commercial banking sector.

During the post war period the substantial fluctuations in these balances have been the result of fluctuations in total deposits and/or fluctuations in the loans and advances ratios. Total deposits are shown in Table 3.4.

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[24] C.Y. Thomas, op. cit., p. 46.

TABLE 3.4.

Total Deposits of Commercial Banks
(Millions of dollars)

	Trinidad & Tobago [a]	Jamaica [b]	British Guiana [c]
1946	59.9	63.4	N.A.
1947	51.0	65.3	"
1948	54.8	64.8	"
1949	62.2	64.3	"
1950	71.4	72.5	17.0
1951	79.9	75.4	21.2
1952	85.7	85.4	22.0
1953	94.2	100.3	29.7
1954	105.1	112.3	30.2
1955	111.5	119.0	30.3
1956	121.5	137.8	31.5
1957	163.9	174.2	34.6
1958	162.7	182.9	37.1
1959	190.3	198.7	38.6
1960	193.9	211.2	44.8
1961	189.9	204.5	40.0
1962	202.8	241.9	48.4
1963	240.5	279.8	61.1
1964	247.0	307.7	70.0

N.A. - Not Available

Sources: [a] Annual Statistical Digest, 1964 Table 157.

[b] Callender, op. cit., and Bank of Jamaica Annual Report 1964.

[c] Thomas, op. cit., and Quarterly Review of Financial Statistics, March 1965.

In Trinidad and Tobago total deposits increased by 317 percent between 1946 and 1964, in Jamaica the increase was 385 percent during the same period while in British Guiana between 1945 and 1964 the increase was 340 percent, these increases represented average annual increase of 17 percent, 20 percent and 20 percent respectively.

Faced with this substantial increase in deposits the commercial banks had to divide these additional resources primarily between loans and advances and liquid assets. Loans and advances are shown in Table 35.

TABLE 3.5

Loans and Advances of Commercial Banks
(Millions of dollars)

	Trinidad and Tobago [a]	Jamaica [b]	British Guiana [c]
1946	9.6	18.2	N.A.
1947	16.3	37.0	"
1948	17.6	41.8	"
1949	17.2	47.0	"
1950	19.0	49.4	6.0
1951	26.2	50.9	7.0
1952	28.1	55.2	6.5
1953	29.6	67.2	9.3
1954	31.4	61.4	11.0
1955	41.1	73.0	12.8
1956	40.4	75.8	14.0
1957	40.2	119.3	15.7
1958	44.8	143.0	21.5
1959	61.3	166.1	22.2
1960	83.0	186.6	32.8
1961	101.0	203.5	27.9
1962	113.9	193.9	30.3
1963	118.0	178.6	28.7
1964	133.6	242.9	32.4

N.A. - Not Available

Sources: [a] Annual Statistical Digest, 1964.

[b] Digest of Statistics, 1950-1952, Monetary Statistics, 1962-1964.

[c] Quarterly Review of Financial Statistics, March 1965.

The policies of the commercial banks in our three territories during the post war period could be classified into four broad phases:

(1) Immediate Post War Expansion.

(2) Restrictions in the early 1950's.

(3) Expansion in the late 1950's.

(4) Restrictions in the 1960's.

While these categories broadly define the attitude of the commercial banks, the period of duration and the intensity, differed in the individual territories because of local conditions.

The Immediate Post War Expansion

While the War did create hardships in our territories, there is little doubt that the territories benefited to some extent from the wartime controls and restrictions on investments. The Exchange Control Section of the Emergency Powers (Defence Act) of 1939 was extended to all the Colonies. In addition to the imposition of controls on the actual transfer of capital from sterling to non-sterling countries, the Act authorized the Colonial Governments to regulate exports as well as imports of commodities.[25]

The restrictions on imports resulted in a certain degree of import substitution. As a result, local industries producing lard, margarine and edible oil expanded output to the extent that by the end of the war they were net exporters. In addition, several new industries were established,

[25] C.V. Callender, op. cit., p. 176.

producing condensed milk, corn meal, chemicals, textiles and other secondary manufactures.

While important statistics for the period are not available, exports from Trinidad and Tobago show a change in the structure during and after the War. This is shown in Table 3.6.

TABLE 3.6

Value of Exports, Trinidad and Tobago
('000)

	1940	1945	1946	1947
Dairy Produce	0.4	77.8	75.0	87.5
Seeds for oil, oils, fats, etc.	465.5	703.4	1032.2	2694.7
Fresh Vegetables	668.3	43.2	63.4	438.2
Poultry, Glass abrasives	193.5	784.5	2557.2	2052.9
Chemicals, drugs, dyes, etc.	97.0	229.0	133.9	170.9
Oils, fats and resin manufactured	13137.5	7837.7	30,605.5	43,198.4
Miscellaneous articles wholly or mainly manufactured	40.4	34.5	103.3	118.1
TOTAL	22,962.8	18,730.5	46,316.4	65,105.9

Source: Annual Statistical Digest, 1964, Table 144.

Inadequate shipping facilities had a direct effect on the export of both oil and fresh vegetables. This is seen in the tremendous decrease between 1940 and 1945 and the upsurge thereafter. In 1940 oil exports constituted 57 percent of total exports and by 1945 it decreased to 41 percent. A similar situation existed in Jamaica, since it is estimated that banana exports which had constituted 59.2 percent of total exports in 1938 had fallen to 22 percent of total exports in 1946.[26]

In Trinidad and Tobago increases in exports between 1940 and 1945 were registered in the Dairy Producing Industry which increased from less than 1 percent of total exports to 4 percent and poultry and glass abrasives which constituted less than 1 percent of total exports in 1940 was contributing 5 percent in 1946. In Jamaica, while sugar and rum which had constituted only 22 percent of total exports in 1938, by 1946 they comprised 50 percent.[27]

During the War Because of the numerous restrictions, the commercial banks in the territories accumulated substantial overseas balances. In 1946, foreign balances represented 61 percent of total assets in Trinidad and Tobago, 35 percent in Jamaica, and in British Guiana foreign balances represented 76 percent of total assets in 1945.

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[26] C.V. Callender, The Development of the Capital Market Institutions of Jamaica, p. 76.

[27] *Ibid.*, p. 76.

Nevertheless, the war time controls and restrictions on investments had created a backlog of demand for bank credit, so that with the return to peace, we observe an increase in demand for credit in the three territories. In order to satisfy this increased demand there was a rapid running down of foreign balances resulting in a net import of capital by the commercial banking sector. This expansionary policy by our commercial banks had two important results. In the first place, there was an increase in the loans and advances/total assets ratio, and secondly there was a decrease in the foreign balances/ total assets ratio.

The period lasted from 1946 to 1949 in Jamaica. While total deposits increased by only $1 million during this time, loans and advances increased by $29 million and foreign balances decreased by $22 million. The result was that the loans and advances/total assets ratio increased from 64 percent in 1946 to 72 percent in 1949. While the foreign balances/total assets decreased from 35 percent in 1946 to less than 1 percent in 1949.

In British Guiana the period lasted even longer from 1946 to 1950. Most of the banking statistics for this period are missing but Thomas states that there was a substantial increase in loans and advances during the period and running down of foreign balances. The foreign balances/ total assets ratio decreased from 76 percent in 1945 to 44 percent in 1950. Two important reasons are given for this:

In the first instance, owing to wartime restrictions on local investments, there was a backlog of "credit worthy" customers who were now in a position to demand advances. In the second instance this increased demand occured at a time when the banks were very liquid. While the former circumstance was of primary consideration, it would be reasonable to argue that the presence of large liquid balances made easier the satisfying of this demand.[28]

The period in Trinidad and Tobago, however, was extremely short as it lasted for only one year, between 1946 and 1947. In this period total deposits decreased by $9 million while loans and advances increased by $7 million and there was a reduction in foreign balances of $22 million. The loans and advances/total assets ratio increased from 14 percent in 1946 to 28 percent in 1947 while the foreign balances/total assets ratio decreased from 61 percent in 1946 to 39 percent in 1947. The special case of Trinidad and Tobago is discussed in a later section.

The Restrictive Period

In the early years of the 1950's, we observe a period of restrictive credit policies by the commercial banks in the three territories, even in the face of substantial increases in total deposits. The increase in total deposits was a result of two important factors:

(1) Increases in incomes in the three territories and,

(2) An active interest rate policy followed by the commercial banks.

In Jamaica and British Guiana, the increases in incomes were a direct result of increases in the output and export of the bauxite

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[28] C.Y. Thomas, Monetary Management in a Dependent Monetary Economy, p. 52.

industries. In Trinidad and Tobago oil production and exports, which were hampered by inadequate shipping facilities during the war experienced a substantial rise after 1948 and this spilled over into the early years of the 1950's.

At the same time as this rise in incomes, an active interest rate policy was followed by the commercial banks in the three territories in relation to interest paid on deposits. Prior to 1951, interest of 1 percent was always paid on savings deposits, 1/2 percent on 6 months' deposits and 1 percent 12 months' deposits. After May 1952, however, the interest paid on savings deposits was increased to 2 percent, 6 months' deposits were increased to 4/5 percent and 12 months' deposits to 1-1/3 percent.

The effect of this active interest rate policy by the commercial banks was a change in the structure of deposit liabilities and this is evidenced by the fact that there was an increase in both term and savings deposits relative to demand deposits. This is shown in Table 3.7.

TABLE 3.7

Term and Savings Deposits as a Percentage of Total Deposits

	Trinidad and Tobago	Jamaica	British Guiana
1951	58%	34%	33%
1956	59%	44%	50%

Source: Calculated from Table 1.7A

From the table above the non-conformity of Trinidad and Tobago to the pattern in both Jamaica and British Guiana is again conspicuous.

During this period, loans and advances by the commercial banks in the three territories increased only marginally, consequently, there was an increase in foreign balances, in other words an export of local savings by the commercial banks.

We believe, that it is important to note that the increase in deposits which occurred at this time was acquired at an additional cost ie. by increasing the interest rate paid on deposits. As a result, in order to maintain the previous level of profits, the commercial banks had to acquire more lucrative investments.

Dr. Girvan[29] in his analysis of the Jamaican situation states that the capital outflow was a result of a "substantial rise in the community's supply of funds to the banking system, without a concomitant rise in the demand for funds from it". However, it is difficult for us

[29] N.P. Girvan, Foreign Investment and Economic Development in Jamaica since World War II, p. 282.

to see how he could have arrived at his conclusion. The fact that funds are transferred from one country to another does not necessarily mean an absence of demand for credit in the exporting country. Applications for bank credit are unknown, in addition, bank credit policies often deter several persons from even becoming applicants; and at this time there was absolutely no governmental control or regulation of commercial banks, and more important is the fact that in underdeveloped territories the supply of bank credit is never a function of the interest rate, all make it extremely difficult to ascertain the demand for bank credit, especially in terms of insufficient demand. Excess demand is much easier to quantify, as it is reflected in unsatisfied applications.

Dr. Girvan's argument is tautological. It seems to us that he has defined the demand for bank credit as the amount of loans and advances supplied by the commercial banks. So that since there was at this time an insufficient supply of bank credit he concludes that there was not a "concomitant rise in the demand for funds from it".

It is quite possible, we believe, that at this time the demand for funds by "credit worthy" borrowers decreased, or failed to increase. However, in the absence of statistical evidence to support it, it seems to us that the export of domestic savings by the banks was primarily a result of the two important considerations noted above in relation to the quarterly cash holdings of the commercial banks ie. the underdeveloped nature of the financial market and the convertibility guarantees of the Currency Board System. The absence of an active market in short term instruments locally necessitated the transfer of funds to the United Kingdom while the convertibility guarantees of the Currency Board facilitated it. In addition, investments on the British money market were necessary because of the higher cost of obtaining the funds.

The net result of these restrictive policies is that total deposits in Jamaica increased by $73 million between 1950 and 1956. In spite of this increase, loans and advances increased by only $21 million. Foreign balances, then, increased during the period from $1 million in 1949 to $26 million. This resulted in an increase in the foreign balances/total assets ratios and a decrease in the loans and advances/ total assets ratio. The former increased from less than 1 percent in 1949 to 17 percent in 1956; while the latter decreased from 61 percent in 1950 to 49 percent in 1956.

Similarly, in British Guiana between 1951 and 1953 while total deposits increased by $13 million during the period, loans and advances increased by only $2 million and foreign balances increased by $6 million. Consequently, the loans and advances/total assets ratios which were 29 percent in 1951 decreased to 27 percent in 1953, while the foreign balances/total assets ratios increased from 44 percent in 1951 to 49 percent in 1953.

In Trinidad and Tobago, total deposits increased by $50 million between 1948 and 1953. However, loans and advances increased by only $14 million, while foreign balances increased by $25 million. During the period, the loans and advances/total assets ratios fluctuated, but averaged 28 percent while foreign balances increased from $28 million to $60 million i.e. from 29 percent of total assets to 60 percent.[30]

Expansion of the mid 1950's

In the three territories the period of restrictions was reversed in the mid 1950's. The expansionary policy started in Trinidad and Tobago and in British Guiana in 1954 and in Jamaica in 1956. During the period there was a tremendous increase in incomes in the three territories. As shown in Capter 1 in the three territories there were substantial increases in the output of bauxite in both Jamaica and British Guiana and alumina in Jamaica, while in Trinidad and Tobago the petroleum industry experienced a reorganization and substantial expansion. In addition, the other sectors, notably construction and manufacturing experienced a high rate of growth during the period. This increase in incomes was reflected in the rise in total deposits in the three territories. The situation in Trinidad and Tobago is of particular importance since there was a radical reversal of the policy in 1956 while expansion continued in both Jamaica and British Guiana until 1960. In Trinidad and Tobago

[30] (An interesting observation is the obvious fact that these statistics do not conform to arithmetic computation.)

the commercial banks had by 1954, built up a substantial amount of foreign balances, 62 percent of total assets. Being in this highly liquid position, they were in a strong position to satisfy the increased demand for bank credit. Since there were only marginal increases in total deposits during 1954 and 1955, - $4 million -, in order to satisfy the increase in demand of $12 million there was a reduction in foreign balances of more than $3 million. Between 1954 and 1955 the loans and advances/total assets ratio increased from 27 percent to 35 percent while the foreign balances/total assets ratio decreased from 62 percent to 55 percent.

In 1956, however, we observe a radical reversal of this policy. This was due, we believe, to the political unrest prior to and immediately following the elections of September 1956. The elections were the most bitter ever conducted in the history of the island and created a high degree of uncertainty. This uncertainty was aggravated by the return of a new government pledging to reorganize the entire country.

The question as to whether or not this uncertainty was justified is debatable but it was certainly reflected in the attitude of the commercial banks. In both years, 1956 and 1957 almost the entire increase in total deposits was transferred out of the country with, apparently, no new loans granted. This is shown on Table 3.8.

TABLE 3.8

Selected components of Commercial banks assets & liabilities - Trinidad & Tobago

(Millions of Dollars)

Years	Total Deposits	Loans & Advances	Foreign Balances
1955	111.5	41.1	56.9
1956	121.5	40.4	66.5
1957	163.9	40.2	106.8

Source: Annual Statistical Digest, 1964.

In 1956, total deposits increased by $10 million and foreign balances increased by $10 million while loans and advances decreased by $1 million. In 1957, total deposits increased by $42 million and foreign balances increased by $40 million, while loans and advances decreased by $0.2 million.

The actual transferring of the funds from the territories was purely the actions of the commercial banks because of the political situation. However, while the failure of bank loans to increase at this time could have been caused by the attitude of the banks, it could have stemmed also from apprehensiveness on the part of existing and/or potential borrower from the banks regarding the political situation. Local businessmen might have become unwilling to embark on any expansionist schemes that required bank financing. Indeed, some businessmen may have curtailed their activities and in the process used less bank credit.

The non-conformity of the commercial banking sector of Trinidad and Tobago to patterns of behaviour common to both Jamaica and British Guiana prior to 1958 has been noted above. In summary they are as follows:

(1) Foreign balances have been higher, consequently liquid asset ratios have been higher.

(2) The loans and advances ratios have been lower and fluctuated more widely.

(3) The period of Post War expansion lasted only one year, while it lasted for a much longer period in both Jamaica and British Guiana, consequently the period of restrictive policies in the early 1950's actually began in the late 1940's.

(4) The structure of commercial banks deposits did not undergo any substantial change during the period in which banks conducted their active interest rate policies.

This behaviour could be accounted for by several factors. During the period the two sectors which were expanding were the mining and quarrying sector, and the agricultural sector. These industries, being mainly foreign owned were financed primarily by funds originating from outside the territories and as a result made little demands for funds from the local banking sector. As a result, the banking sector, found itself with extra reserves, and transferred these funds to the United Kingdom in search of investments. (The Girvan Effect).

However, given the fact that this was so, this partly explains the high level of foreign balances but does not account for the widely fluctuating ratios. One explanation, to which we subscribe, is that the Barclays Bank D.C.O. in Trinidad and Tobago has had a monopoly in the banking business in the territory and as a result the pattern of behaviour of the commercial banking sector in Trinidad and Tobago was actually a function of the attitude of one bank, exposed to very little competition.

Our conclusion is based on very little statistical evidence as the operations of the individual banks in individual territories are unknown. Nevertheless, the Clearing figures of the individual banks indicate, to a certain extent, the amount of banking business done by each bank.

TABLE 3.9

Clearing Figures

Commercial Banks in Trinidad and Tobago

June 1966

Barclays Bank (D.C.O.)	56%
Royal Bank of Canada	23%
Canadian Bank of Commerce	9%
Bank of Nova Scotia	6%
Chase Manhattan	3%
Bank of London and Montreal	2%
First National City Bank	1%
	100%

Source: Official Clearing Figures.

The use of clearing figures as an indicator of the control of banking business is subject to severe limitations and inaccuracies. This is particularly so in the territory since a substantial portion of interbank settlements was done outside of the island. While a more useful analysis must show the division of assets and liabilities this is not possible. However, the figures shown above were confirmed by the managers of the individual banks in the territory, as a correct indication of the banking business controlled; except in one case a smaller bank claimed 5 percent rather than less than five.

It would thus seem that in 1966 Barclays Bank D.C.O. controlled about 56 percent of the commercial banking business. (The Bank of London and Montreal is now partly owned by Barclays Bank D.C.O.). The monopoly position of the bank is accentuated when it is observed that out of the seven banks operating in the territory in 1966 only 4 were operating before 1958. This would mean that prior to 1958 Barclays Bank D.C.O. probably controlled between 70 and 80 percent of the banking business at that time.

While the argument above does not "prove" the existence of monopoly our view is further supported by the higher degree of competition existing amongst the banks in both Jamaica and British Guiana. There again the absence of statistics of the individual banks' operations limits statistical verification but as was shown in Chapter II, since the initial establishment of Barclays Bank D.C.O., local opposition by the Bank of

British Guiana existed. This we can assume was continued by the Royal Bank (which bought out the Bank of British Guiana in 1914).

In Jamaica, the same limitation to our analysis exists. However, Barclays Bank D.C.O. was the first bank established in the island but by 1966 the Bank of Nova Scotia was controlling 40 percent of the banking business, (these figures were widely publicized when the Bank of Nova Scotia became the Bank of Nova Scotia, Jamaica Ltd.).

In addition, prior to the establishment of the Bank of Jamaica, it was the Bank of Nova Scotia and not Barclays Bank (D.C.O.) which was the Government's Banker. This seems to imply that there has been some competition over the years.

The non-conformity of Trinidad and Tobago lasted until 1958 when marginal increases in loans and advances were observed. Since 1959, however, an expansionary policy has been followed by the commercial banks similar to that of Jamaica between 1956 and 1961 and in British Guiana between 1954 and 1960 and to this we now turn.

Between 1956 and 1961 total deposits in Jamaica increased by $67 million while there was an increase in loans and advances of $128 million. In order to satisfy this increased demand for credit foreign balances were exhausted reaching $2 million in 1961.

The expansion in bank credit in British Guiana took place between 1954 and 1960. Loans and advances increased during this period by $22 million while total deposits increased by only $15 million. Consequently, foreign balances decreased by $9 million.

In Trinidad and Tobago, a similar increase in loans and advances took place between 1958 and 1964. Loans and advances increased by $89 million during this time while total deposits increased by only $84 million. During this time foreign balances decreased by $56 million.

This increase in bank advances in the three territories indicates the important role of commercial banks in determining the money supply. This was emphasized in Chapter II but Professor Bloomfield did not recognize it. His failure to recognize this was due, we believe, to his misunderstanding of the actual working of the system. This misunderstanding is stated in the following:

> Given the fact that the West Indies is an export economy, changes in the money supply, as well as in national income, have in the past tended to be the result mainly of externally generated fluctuations in the balance of payments. Increases in exports, usually associated with rising business activity in Great Britain and other world markets, not only directly increase the money supply as the external assets of the commercial banks and the currency-issuing authorities grow, but also induce a multiple increase in the level of national income.[31]

It is obvious that the importance of the secondary changes in the money supply by the commercial banks from which time the balance of payments becomes dependent on the money supply is not considered here. This led him to conclude erroneously:

> While developments in the West Indies as a whole appear to have conformed broadly to this patter in the past, and in most of the

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31 A.I. Bloomfield, Central Banking Arrangements for the West Indian Federation, p. 1.

> individual territories, still conform broadly to it today, Jamaica .....has in recent years been a marked exception.........The steady rise in the Jamaican money supply that has taken place in these years has thus been due exclusively to commercial bank lending.......In short, the traditional pattern has been reversed.[32]

Because of his failure to recognize the important role of the commercial banks Professor Bloomfield considered Jamaica as an exception rather than the general rule.

An analysis of loans and advances in the three territories is given in Appendix Tables 1.3, 1.4, 1.5. A particularly striking observation is the fact that the majority of loans has always gone to the categories of "Other Industries" and loans to "Others". These categories accounted for about 80 percent of all loans in Jamaica during the period of expansion and over 90 percent in Trinidad and Tobago. British Guiana, however, is the only territory in which there has been any change in the structure of loans and advances for while loans to agriculture accounted for only 25 percent in 1956, in 1960 it was accounting for 41 percent. The increase in loans to agriculture was made primarily at the expense of loans to industry which in 1956 accounted for 55 percent of total loans and advances and by 1960 had decreased to 26 percent.

The classifying of loans under the above categories is not particularly informative and to a certain degree misleading. These categories are very broad, and the fact that certain businesses engage in a

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[32] Ibid., p. 10.

multitude of activities, it is almost impossible to properly classify these loans. This we believe, is one of the reasons for the emphasis on overdrafts rather than loans in our territories. By granting an overdraft, rather than a loan, the banks are in a better position to ensure that the funds are used for the purpose for which they were initially granted. Loans on an overdraft basis only increase when cheques are presented for payment. As a result, the banks will be in a better position to ensure that the funds are being used appropriately.

In the later years, however, a more detailed breakdown is available. This breakdown shows that loans to the Distributive Trades and Personal and Professional represented a substantial proportion of the total. In Jamaica they represented 43 percent of total loans and advances in 1961 and in Trinidad and Tobago they represented 70 percent in 1964, while in British Guiana, they represented 57 percent in 1965.

In our territories the Distributive Trade refers to the wholesale and retail trade, which are primarily concerned with imports and exports. Loans to the Personal and Professional category went primarily to finance consumer credit which has particularly strong import bias. Thus it would seem that a substantially high proportion of loans and advances went towards financing imports. Several factors are responsible for this, the most important being the fact that these two sectors are the only sectors of the economy that can really satisfy the banks' criteria for "creditworthy" customers. To every loan there is an element of risk involved.

From the banks' point of view the degree of risk is determined mainly from four characteristics:

(1) Ability to pay.

(2) Capacity and Competence to pay.

(3) Intention to pay.

(4) Personal Characteristics.

The most important factor determining the Ability to pay is income. For an individual, this would mean earning power through salaries and wages, while for business, it would mean profit. Ability to pay is also determined by other factors such as Bank Accounts, Equity in other forms of Capital, Rents or Trust Funds, and so on.

Capacity and Competence to pay is primarily dependent on CONTINUITY. Continuity of employment, for the individual, and continuity of operations for the businessman. In addition, this continuity must be reasonably assured in the future.

Intention to pay, is one of the most important determinants of credit-worthiness. It is exclusively determined by past credit experience in which the applicant should have demonstrated his ability to meet his obligation promptly. And finally Personal Characteristics illustrates the fact that there is always some personal "touch" attached to all loans.

From the above characteristics it would seem that the criteria used by the commercial banks for granting a loan would be a high income, stability in employment, with apparent continuity in the future and a good past credit experience. These characteristics have only been satisfied by the Distributive Trades and Personal and Professional sectors of the economy.

Since the "Demonstration" effect in the territories is very strong, the rapid increase in loans and advances resulted in a sharp rise in imports, and a deterioration in the balances of visible trade. In Jamaica, while there was a deficit in the balance of trade of $60 million in 1956, this deficit had increased to $100 million in 1960.[33] In Trinidad and Tobago whereas the balance of visible trade was in surplus by $12 million in 1958, by 1964 there was a deficit of $31 million.[34] In British Guiana in 1954 the balance of visible trade was in surplus by $12 million by 1960 there was a deficit of $19 million.[35]

This rise in imports meant that foreign industries were being supported at the expense of local industries . In addition, the economies were enabled to acquire imports in the short run which they might not otherwise have been able to do:

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[33] Economic Survey, Jamaica, 1961, p. 15.

[34] Annual Statistical Digest, 1964, Table 148.

[35] C.Y. Thomas, op. cit., Table 28.

> Expenditures on imports out of bank credit is thus financed in the Balance of Payments sense by an inflow of short term credit through the banking system, credit which it might not have been possible to obtain directly from the overseas suppliers of these imported goods.[36]

The situation in Jamaica and British Guiana is of particular interest since the increase in loans and advances was so great that the commercial banks found themselves in an external deficit position and obtained credit from head office. This meant that foreign loans were obtained to finance the purchase of consumer goods.

The commercial banks in the territories appear to be willing to grant a certain amount of loans to customers based on their own assessment of the "credit worthiness" of would be borrowers in any given demand situation. C.Y. Thomas[37] emphasizes this in relation to British Guiana.

The "supply function of loans" in the territories is extremely important. In the first place, if it were a function of the interest rate, like in developed money markets, then monetary policy could be conducted through changes in the interest rate. However, if it were a function of the banks' assessment of "credit worthiness", as we suggest, there would be serious difficulties in effecting monetary policy, since governments would have to attempt to influence "credit worthiness", which is determined by the attitude of the banks themselves. The question of "credit worthiness":

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[36] N.P. Girvan, op. cit., p. 295.

[37] C.Y. Thomas, op. cit., p. 50.

> appears to be of such overriding importance to the banks that it is extremely difficult to establish a definite link between loans and advances and any of the three variables, interest rates and/or liquidity.[38]

This means that an increase in the supply of loans will only take place by way of an outward shift of the whole supply schedule. When this occurs the banks are in effect willing to grant loans involving greater risks. This would be the situation, irrespective of any movement in interest rates that may or may not occur.

Given this insensitivity of interest rates in the territories, recent controversy has been centered on commercial banks reaction to changes in liquidity.

The accessibility of a central pool of reserves by each individual expatriate banking firm has become a common claim by the commercial banks, but not withstanding this, banks operating in individual territories, in their lending policies, are ultimately governed by the amount of deposit liabilities they can acquire locally. Mr. Graham Towers, former governor of the Bank of Canada emphasized this :

> .... any other claim would have to be based on the assumption that the head offices of the bank are both willing and able to make substantial of semi-permanant investments in Jamaica from their outside resources. I do not believe this to be the case.[39]

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[38] Ibid., p. 50.

[39] G.Towers, Financial Systems and Institutions of Jamaica, Government Printer, Jamaica, 1956, p. 2.

However, there is widespread belief that the commercial banks in the territories do not consider their liquidity position with reference to the individual territories, but rather, treat the whole Caribbean area as a unit. This controversy is summarized in the testimony of the British Overseas Banks to the Radcliffe Committee:

> Prof. Cairncross: Your liquidity cannot be equal in all round. There must be some places where you are, from a local point of view, in a rather liquid state. Do you apply the same credit price throughout?
>
> Mr. Smith: Yes. One of the advantages of banking in various territories as we do is that one can meet seasonal demands in one territory by utilising some of the larger credit balances which are maintained seasonally in other territories. ......
>
> Prof. Cairncross: I assume that there are some territories in Africa where you lend by drawing, in effect, on deposits made in other parts of the continent?
>
> Mr. Smith: Yes.
>
> Prof. Cairncross: It is rather important to know how far you are prepared in your business to make advances in one country substantially in excess of deposits in that country.
>
> Mr. Smith: One would normally only do that as a very temporary measure. We do tend to meet seasonal requirements.[40]

The statistics available, and the manner in which they have been published, do not allow us to verify the claim that the banks treat the Caribbean as a unit. However, the footnote on page 95 shows that there have been "leakages" for which no account could be given.

[40] Evidence to Radcliffe Committee, Vol. 2, Section VI, British Overseas Bankers' Association.

In both Jamaica and Trinidad and Tobago the reduction of foreign balances during this period of expansion coincided with the increased issues of Government Treasury Bills. While Treasury Bills had been issued in Jamaica since 1942, significant developments took place both in 1958 and 1961. Up to 1957 Bills were issued from time to time in accordance with Government's need for funds, and at a discount rate determined by the Ministry of Finance in the light of current market conditions.[41] In an attempt to impliment its policy of encouraging the development of a local money market, the Government introduced, in February 1958, a tender system - the discount rate on Bills issued at tender to be determined largely by supply and demand factors.

In June 1958, rediscounting facilities were introduced. By agreement between the commercial banks, security brokers and Government, arrangements were established which enabled members of the public to buy or sell Treasury Bills through local brokers, on demand. Consequently, these securities became highly liquid assets, which could be cashed by their holders any time. In November 1958, the limit of permissable Government borrowing by Treasury Bills was raised by Resolution in the House of Representatives from $12 million to $16.4 million.

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[41] Economic Survey, 1958, p. 41.

In 1961, the responsability for issue and redemption of Treasury Bills was taken over by the Central Bank of Jamaica from the Accountant General in May, and the first tender managed by the Bank being those Bills issued for the month of June. While the allotment for December 1958 was $4.8 million by December 1961, it had increased to $8.6 million and the average discount had been increased from 3.89 percent to 4.88 percent.[42] The commercial banks in Jamaica absorbed a substantial proportion of these issues.

In Trinidad and Tobago, prior to 1962, most of the Government's borrowing had been from the Joint Consolidated Fund, and by overdraft arrangement with Barclays Bank D.C.O., at the going rate of interest.[43] The Treasury Bill Ordinance of 1960, however, gave the Minister of Finance the power to raise up to $50 million by the issue of Treasury Bills and the first issue was made in January 1962 for the amount of $7.4 million at an average yield of 5.2 percent. In the first month of issue the bank holdings were 79 percent of the total issue.[44]

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[42] Economic Survey, 1958-1961.

[43] SamlalSingh, Op.Cit., p. 146.

[44] Ibid., p. 146.

Restrictions in the 1960's

In both Jamaica and British Guiana we observe a reversal of the expansionary policy and a contraction in credit policy during the 1960's. The credit obtained from Head Office by commercial banks in both territories during the period of expansion was liable to repayment in the short to medium term. In order to do so loans and advances were reduced and foreign balances increased.

This was evident in Jamaica in the 1962-1963 period when there was an absolute decrease in loans and advances in spite of an increase in deposits. In the period total deposits increased by $93 million while loans and advances decreased by $25 million. Foreign balances which represented less than 1 percent in 1961 increased to 8 percent in 1963 resulting in a capital outflow of over $25 million. Loans and advances during the period are shown in Table 3.10.

Whereas most of the categories of loans and advances decreased the largest decreases were registered in the Distributive Trade and Personal and Professional classes the former decreasing by $7.2 million and the latter by $1.0 million.

A similar situation developed in British Guiana as we observed reversal of banks' credit policy between 1961 and 1964. In spite of the

TABLE 3.10

Analysis of Loans and Advances - Jamaica
(Millions of Dollars)

	1962		1963	
Government and Other Public Bodies	$ 5.3	2.8%	$ 3.4	1.8%
Credit and Other Financial Institutions	3.8	2.1	4.3	2.5
Personal and Professional	26.9	13.9	25.9	14.3
Agriculture and Fishing	15.4	7.8	10.1	5.6
Mining	19.2	9.9	9.6	5.3
Industry				
a) Sugar, Rum and Molasses	7.2	3.7	7.7	4.3
b) Food, Drink and Tobacco	3.8	2.0	6.2	3.6
c) Textile, Leather and Footwear	3.8	2.0	3.4	1.8
d) Other Industry	12.5	6.3	12.5	6.9
Building and Construction	8.2	4.2	7.2	4.0
Land Development	6.7	3.4	9.1	5.3
Distributive Trades	58.1	29.7	50.9	28.3
Hotels	9.6	4.9	10.5	5.8
Entertainment	1.4	0.8	2.9	1.7
Public Utilities	2.4	1.2	5.3	2.8
Others	10.1	5.3	10.5	6.0
TOTALS	$195.3	100 %	$180.5	100 %

Source: Economic Survey, 1964.

increase in total deposits of $25 million during the period there were only marginal increases in loans and advances while foreign balances increased from $5 million in 1961 to $31 million in 1964 or from 9 percent of total assets to 42 percent.

The cause of the reversal of credit policies in both Jamaica and British Guiana is uncertain. This reversal could have been caused by two factors:

1. The commercial banks having found themselves in a net deficit position in relation to loans and advances from head office, became "uncomfortable", and as a result, accumulated deposits, reduced loans and advances and repaid their head offices. This would be a policy measure.

2. The economic boom caused by increase in exports would result in the accumulation of foreign balances. This would result because when payments are made for exports there is either a reduction of indebtedness or an accumulation of balances.

It seems to us that the reversal of credit policies by the commercial banks in the two territories was , to a great extent, the results of a policy measure in which the banks became uncomfortable carrying a deficit with head office. In British Guiana this no doubt was aggravated by the fact that a great deal of uncertainty and alarm was created by the 1961 elections and the racial riots of 1962. However, Thomas suggested that the accumulation of foreign balances by the commercial banks in British Guiana was partly a result of the economic boom which had started in 1960.[45]

We believe that the latter point is not insignificant since Thomas mentions the trade surplus in 1961 and 1962 as evidence to support the need for an accumulation of foreign balances. In addition, we observe a continuation of the process through 1963 and 1964 when foreign balances increased substantially. Table 3.11 shows the obvious relationship between the trade surplus and the accumulation of foreign balances in British Guiana.

TABLE 3.11

Characteristics of Foreign Trade

(Millions of Dollars)

Year	Balance of Visible Trade*	Foreign Balances
1961	+ 1.7	4.6
1962	+ 37.4	11.5
1963	+ 57.0	25.2
1964	+ 13.0	31.4

Source: * Quarterly Review of Financial Statistics, March 1965.

Nevertheless we beleive that the situation in British Guiana was similar to that in Trinidad and Tobago in 1956 and 1957. Here, once more the convertibility guarantees of the Currency Board facilitated the trans-

[45] C.Y. Thomas, op. cit., p. 54.

fer out of funds since there was no risk involved in doing so and secondly, the high degree of uncertainty caused by the political unrest. In Jamaica by the same reasoning we would be led to believe that the accumulation of foreign balances was purely a policy measure enacted by the commercial banks since the balance of trade was in deficit in both years 1962 - $71 million and 1963 - $39 million,[46] while the political climate was relatively stable.

In spite of the restrictive credit policy by the commercial banks in British Guiana an important development took place during 1960 when an agreement was reached with the banks whereby a system of guaranteed bank advances to co-operation societies could be started. This government guarantee resulted in an increase in loans and advances to agriculture particularly rice production. Table 3.12 illustrates this.

TABLE 3.12

Bank Advances to the Co-Ops Under Government Guarantee System

Period	Advances ($)
1960	$ 27,512
1961	408,600
1962	219,685

Source: Thomas, op.cit., Table 19.

While the policy of emphasizing agriculture and not industry has been questioned, it is important to note that the Government was able to

[46] Bank of Jamaica, Annual Report 1963, Table 14.

enlist the co-operation of the commercial banks in its development programme. Thomas[47] emphasizes that this was done in the absence of either Governmental control or legislation, hence the effectiveness of "Moral Suasion."

The experiences of both Jamaica and British Guiana are of particular importance to Trinidad and Tobago since the expansion of bank credit is still being carried on. It is our belief that on the basis of the experiences of Jamaica and British Guiana, it is reasonable to expect the commercial banks to reverse their policies over the next few years.

Liabilities of Commercial Banks

The liabilities of the commercial banks in our territories comprise of notes, other liabilities, balances due to banks abroad and Deposits. The existing notes $55,000 in Trinidad and Tobago in 1964,[48] $37,000 in British Guiana [49] are a relic from the days in which the banks had the power to issue notes. However, this power terminated on the establishment of the British Caribbean Currency Board. In Jamaica they do not even appear in recent publications of the Bank of Jamaica's Annual Report.

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[47] C.Y. Thomas, op. cit., p. 69.

[48] Annual Statistical Digest, 1964.

[49] C.Y. Thomas, op. cit., Table 21.

Balances due to banks abroad represent the accumulation of foreign debt, by the commercial banks. The net foreign indebtedness is obtained by deducting their overseas balances from their overseas liabilities. In Trinidad and Tobago throughout the post war period the foreign assets have been much higher than foreign liabilities so that only the net figures have been published.

In British Guiana in 1961-1962 and Jamaica between 1958 and 1962, the banks found themselves in a net deficit position when credit was obtained from Head Office. The situation was described in an earlier section.

Deposit liabilities are by far the most important category of commercial banks' liabilities in the three territories. The rapid increase in deposits has previously been mentioned and Table A1.7 shows the different categories into which these fall.

Bank deposits are created in several ways. In the first place, they may be the result of a capital inflow which is to be used to finance local purchases. Secondly, they may be created by a once and for all change in the liquidity preference of the public, i.e. a general rise in the demand for monetary assets and/or a shift of preference in favour of bank deposits, as against currency. Thirdly, they may be created through advances granted by the commercial banks, and finally saving deposits may reflect the increase in incomes of the savings - depositing sector and/or a downward shift in their propensity to consume.[50]

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[50] Ibid., p. 79.

The rapid increase in savings and time deposits both absolutely and realtively is obvious. In Trinidad and Tobago between 1946 and 1964 Time and Savings deposits increased by 414 percent in Jamaica the increase was 600 percent during the same period, while in British Guiana between 1950 and 1964 there was an increase of 586 percent. This represented an average annual increase of 23 percent, 33 percent and 42 percent respectively.

Table A1.7 also shows that there have been large fluctuations in demand deposits over the period. In the territories, demand deposits are used primarily by large firms, local and foreign, to cover such expenses as wages and the purchase of material and the purchase of drafts and remittances. Most of the remaining accounts are held by the Government (prior to the establishment of Central Banks)members of professions and senior Government employees. The large fluctuation in these deposits contributes towards the large fluctuations in the liquidity ratios mentiones earlier. The facts that these deposits are payable on demand is ever present in the mind of local bankers and this reinforces the tendencies for advances to be granted for short periods only.[51]

Another important characteristic of demand deposits is that over the period they have failed to rise as quickly as the rise in advances granted. This fact supports the inference that there is a very high propensity to import out of bank advances. The correlation between

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[51] Ibid., p. 79.

increase in bank advances and increases in the balance of payments deficit has been noted above. To the extent that advances are spent on imports, local deposits are not created, barring minor "repercussion" effects brought about by the leak of local incomes to foreign exporters.[52]

The rise in savings and time deposits, besides reflecting the growth in income over the period, was to a great extent the result of an active interest rate policy followed by the commercial banks during this post war period. This policy is reflected in Table A1.8 and was discussed in an earlier section.

The high rate of growth in the number of branches (shown in an earlier section) partly accounts for this rise in total deposits while the increase in saving deposits specifically, partly reflects the prestige involved in having a savings account. The banks have taken an active part in attracting these savings deposits. This is reflected by the remodelling of the offices to an extent that the majority of branches are air conditioned.

The fact that the offices are now air conditioned is important for our recommendation (in the conclusion). The banks should change their "opening hours" to the public. It seems to us that the inconvenient hours mentioned above were initially started because of the discomfort of working in the afternoon heat in the territories. (No better explanation was given in my interviews with local managers).

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[52] Ibid., p. 79.

CHAPTER IV

CENTRAL BANKING ARRANGEMENTS

Central Banks have been established in the three territories within the space of five years. The Bank of Jamaica Law was passed on 13th June, 1960, The Central Bank Act of Trinidad and Tobago was passed on 11th December 1964, and the Bank of Guyana Ordinance on 15th October, 1965. Because of the recency of their establishment, a comparative assessment of their effectiveness must, of necessity, be postponed.[1] However, in order to determine the possible effectiveness or ineffectiveness, it will be instructive to try to establish the thinking that went behind the various regulations, and powers granted, in order to achieve the various objectives.

Aims and Objectives

The traditional view of Central Banking was that it should exercise control over the creation and flow of money, and to influence movements in the rates of interest, and the rates of foreign exchange. These ideas, no doubt, were fashioned by the needs of the period. The rapid emergence of Central Banks started after the First World War when competitive devaluations of various currencies were common, and the need for reconstruction of wartorn, relatively developed, countries was urgent.

As representative of the aims of Central Banks at the time we can observe the aims of the Bank of Canada under the Bank act of 1934:

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[1] (An assessment of the performance of the Bank of Jamaica is possible. A very good one has been presented by Lloyd Best and Alister Mc Intyre, "A First Appraisal of Monetary Management in Jamaica", Social and Economic Studies, Vol.10,No.3, Sept. 1961. In Trinidad and Tobago, however, in spite of the fact that the Bank was established in 1964, it was only in the latter part of 1966 that the commercial banks began keeping deposits at the bank).

> ....to regulate credit and currency in the best interest of the economic life of the nation, to control and protect the external value of the national monetary unit, and to mitigate, by its influence, fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion.

It is evident that the primary aim of Central Banking at this time was monetary stability. However, after the Keynesian Revolution,[2] and the resulting realization of the need for increasing Governmental participation in the economic life of the country, and later by the conversion of "underdeveloped" countries to "developing" countries, the aims of Central Banks are being changed. Instead of monetary stability being an end in itself, it is increasingly being considered to be, a means whereby Government should promote economic development.

The urgent need for Central Banks in the developing countries has resulted in attempts at mass production, with the help of "expert" advice from the advanced countries, mainly from the United Kingdom and The United States. In so doing many countries have fallen victims to what is commonly known as "disfunctional ideologising", that is, adopting doctrines developed in advanced countries, without making a close analysis of the peculiar arrangements, specific needs, and objectives of the territories involved. As a result there has been what Statist called:

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[2] J.M. Keynes, The General Theory of Employment, Interest and Money, London: MacMillan, 1936.

> ....an orgy of central banking propagation based on the simple belief that it was necessary to establish a miniature replica of the Bank of England or the Federal Reserve Bank of New York. [3]

On specific example of "disfunctional ideologising" in the establishment of a Central Bank and quoted by Sen[4] is found in the Report of the Royal Commission on Indian Currency and Finance 1925, for after stating that "the central banks in other countries work under Charters, which, though differing in detail, are very similar as regards their fundamental lines", the Commissioners proceeded to set up a central bank in India "with a Charter framed on lines which experience has proved to be sound".

The West Indies have not escaped this type of "expert" advice. Professor Arthur I. Bloomfield after spending two and one-half weeks during the Christmas vacation of 1961, at the invitation of the University College of the West Indies ("the outcome of a brief visit to Jamaica and Trinidad",)[5] misinterpreted the working of the system. This was discussed fully in Chapter III.

Professor Bloomfield, unfortunately, arrived at the critical point in the existence of the now defunct West Indian Federation, his recommen-

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[3] Statist, May 20, 1939, p. 634. Cited by Sen, Central Banking in Underdeveloped Capital Markets, p. 6.

[4] Ibid., p. 6.

[5] A.I. Bloomfield, Central Banking Arrangements for the West Indian Federation, p. 1.

dation of two Central Banks one in Jamaica; and one in Trinidad, intending to serve the needs of the Eastern Caribbean territories which were all members of the Eastern Caribbean Currency Board at the time was really an attempt to establish some order in the monetary system, which was highly constrained by an unworkable West Indian Federal Constitution.

The establishment of Central Banks over the years, has tended to reflect the changing needs of the various territories. One of the simplest statements of the objectives of the Central Bank is to be found in the Statute governing the Bank of Rhodesia and Nyassaland,[6] where the Central Bank was held "responsible for the regulations of the monetary system of the Federation."

At the other extreme, the most exacting definition not only holds the Central Bank of Ceylon [7] "responsible for the administration and regulation of the monetary and banking system," but charges it with "the duty of so regulating the supply, availability, cost and international exchange of money as to secure ....

1. the stabilization of domestic monetary values.

2. the preservation of the par value of the Ceylon rupee and the free use of the rupee for current international transactions.

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[6] The Bank of Rhodesia and Nyassaland Act, 1956, cited by W.F. Crick, op.cit., p.41.

[7] W.F.Crick, op.cit., p.41.

3. the promotion and maintenance of a high level of production, employment and real income in Ceylon.

4. the encouragement and promotion of the full development of the productive resources of Ceylon."

In Trinidad and Tobago, Jamaica and British Guiana, the need for economic development is strongly stated in the acts governing the Central Banks. This is reflected in Bank of Jamaica Law[8] in which the principal objectives of the Bank are stated:

> .....to influence the volume and conditions of supply of credit so as to promote the fullest expansion in production, trade and employment, consistent with the maintenance of monetary stability in Jamaica and the external value of the currency, to foster the development of money and capital markets in Jamaica and to act as banker to the Government.

In Trinidad and Tobago, the First Annual Report of the Bank of Trinidad and Tobago states that the "Bank has as its principal purpose and responsibility the promotion of such monetary credit and exchange conditions as are most favorable to the development of the economy".[9]

In British Guiana, the principal objectives stated in the Bank of Guyana Ordinance 1965 are as follows:

> Within the context of economic policy of the Government, the Bank shall be guided in all its actions by the objectives of fostering monetary stability and promoting credit and exchange conditions conducive to the growth of the economy of British Guiana.

The need for economic development is conspicuously present amongst

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[8] Bank of Jamaica, Annual Report, 1961, p. 2.

[9] Central Bank of Trinidad and Tobago, Report of The Year Ended, December 31st, 1965.

the objectives of the three Banks. The controversy of monetary stability being a means to an end or an end in itself is clearly evident in the three acts. It seems to us that monetary stability is the prime objective governing the aims of the Central Banks both in Jamaica and British Guiana while in Trinidad and Tobago, monetary stability, it seems, is a means whereby the development of the economy could be achieved.

This emphasis is shown in the following:

> Jamaica:
> ...production, trade and employment CONSISTENT (our capitals) with the maintenance of monetary stability.
> British Guiana:
> ...fostering monetary stability...CONDUCIVE (our capitals) to the growth of the economy.............
>
> However, in Trinidad and Tobago:
> ...promotion of such monetary...AS ARE MOST FAVORABLE (our capitals) to the development of the economy.

The aims and objective of the Bank of Trinidad and Tobago conform to Messrs. Best and McIntyre's contention that:

> In respect of policy objectives we take it that top priority (in Jamaica) should be given to the fostering of economic growth which so far as it involves monetary policy, requires the Authorities within the limits of their competence, to encourage the provision of maximum credit at minimum cost in support of productive investment. Other objectives such as the maintenance of the external value of the currency, the guarding of the external reserve positions, and the stabilizing of the internal value of money must necessarily be subordinate, receiving attention only to the extent that they contribute to the achievement of the main goal. [10]

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[10] L. Best and A. McIntyre, op. cit., p. 353.

Thus it would seem that Messrs. Best and McIntyre's criticism of the Jamaican Act might be applied to the Ordinance of British Guiana also (The Bank of British Guiana was established later). This debate, it seems, is another of the traditional Central Banking conflicts similar to whether or not the Central Bank should be an Independent Institution (discussed below). However, this problem is much more serious. It seems to us that while there is the "possibility", albeit a small one, that in underdeveloped countries economic development could be achieved in the long run if monetary stability is maintained, it is hardly likely that economic development would be achieved if there is monetary instability. This is particularly true in the three economies which depend heavily on foreign trade. In addition, the size of the territories shows that, even if the economies were economically integrated, the resulting economy would indeed be a small one. Professor Demas emphasizes this:

> ...we are all very small economies whether size is measured in terms of total national income, total population, or total usable land area. Even as a combined economic unit, we shall have a relatively small internal market. Our small size implies two things: First of all that we should try to integrate our economies in order to reap the benefits of the economies of large-scale production. Second, we have to rely heavily on foreign trade. [11]

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[11] W.G. Demas, "Interest of the West Indies in Canada", Papers from A Conference Organized by Canadian National Commission for UNESCO, <u>The West Indies and the Atlantic Provinces of Canada</u>, p. 50.

As a result, while there is no doubt that economic development should be given "top priority" whether or not this should take precedence over monetary stability is debatable.

Relations with the Government

In keeping with the post war tendency to establish Government owned bodies, the three Banks are owned by the Governments of the individual territories. The authorized capital of the Bank of Jamaica was $4.8 million of which $1.2 million was to be paid up on its establishment. In Trinidad and Tobago, the authorized capital of the Bank of Trinidad and Tobago was $5 million of which $2 million was to be paid up on its establishment, while in British Guiana the authorized capital was $6 million of which $4.5 million was to be paid by the Government "as soon as, and in such amounts as the Bank may require".

This trend of public ownership is seen in the fact that out of thirteen Central Banks operative in Commonwealth countries at the beginning of 1964 (leaving aside the Bank of England, state owned since 1946) only one - the earliest among them, that of South Africa, established in 1920 - has the legal form of a "shareholders" bank. Of the other four pre-war undertakings, the Central Banks of New Zealand, Canada and India, were established with similar status, but it was not long before, in each case, the capital was taken over by the state. In Australia the Commonwealth Bank whose developed Central Banking functions were crystalized in statutory form in 1945 and separately vested in a Reserve

Bank in 1959, had been from its foundation, before the First World War, a state owned institution. All but one of the eight post war Central Banks were founded with the state as sole shareholder, while in Pakistan the state owns 51 percent of the Capital.[12]

Central Banks' direct relationship with the Government has been the subject of a great deal of controversy in recent years. The conception, fairly widespread between the wars, was that the Central Bank should get on with its own business and not pay much attention to politics or Government. However, the modern conception of Central Banking arrangements, is that, though retaining much independence in its operations and in its thinking, the Central Bank should act in the closest harmony with the Government. This has resulted in phrases such as "independent within the Government", and elsewhere by other phrases which reflect the different shades of relationships in different countries.[13]

Propenents[14] of independence of the Central Bank have argued

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[12] W.F. Crick, Op. cit., p. 38.

[13] Lord Cobbold, Some Thoughts on Central Banking, The Stamp Memorial Lecture 1962, p. 7.

[14] (Several of these arguments are treated by H.S. Gordon, "Central Banking and Responsibility Government", included in Cairns, Readings in Canadian Banking and Monetary Policy) p. 105.

that an independent Monetary Authority is necessary to prevent the Government from being able to indulge in its natural propensity to resort to inflationary spending. A stable monetary environment is essential to the proper functioning of a predominantly free enterprise society and an independent Monetary Authority is essential to maintain such a monetary environment. It is also alleged that the nation's monetary policy is too delicate a matter to be left in the hands of politicians. The nature and importance of Monetary Policy is such that it must be given over to experts, who are independent of the political system, if not, the long run objectives of stability, growth and development, would be sacrificed for the short run political objectives, designed to capture the temporary fancy of the electorate.

However, an independent Monetary Institution, free from political affiliation, does not, necessarily render it insensitive to contemporary political opinion, but may expose it, rather, to severe criticisms from both sides on the "House". In newly independent countries where political consciousness is strong, the possibility is ever present. In addition, as Professor Johnson [15] emphasizes, the position of the Central Bank as controller of the money supply, if there is independence, must inevitably bias the Monetary Authorities, except in national emergencies

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[15] H.G. Johnson, "Should there Be an Independent Monetary Authority", included in W.L. Smith, Readings in Monetary and Stabilization Policy.

such as war etc, towards emphasizing the pursuit of objectives connected with the value of money-resistence to domestic inflation, preservation of the international value of the currency - to the under-emphasis of other objectives such as high employment or economic growth.

It seems inconceivable, however, that a Government could be allowed the discretionary power to change the tax structure and be forbidden the power to affect the money supply. While indeed, there is danger of monetary mismanagement in the pursuit of political objectives, it is preferable that such mismanagement be the clear responsibility of the Government and accountable to the electorate, knowing full well that in any democracy, the people get the type of Government they deserve.

With this in view, an observation of laws governing the relationship between the Bank and the various Governments is informative. In Jamaica section 39 of the law states that:

> .....the Minister may, from time to time, after consultation with the Governor of the Bank, give the Bank in writing, such directions of A GENERAL NATURE (Our capitals)...............

Similarly in Trinidad and Tobago the Government is empowered, under section 50, to issue to the Bank such written directives of a general nature as may be necessary.......

However, the relationship in British Guiana is reversed as under Section (51) it would appear that the Bank takes the initiative for:

> (1) It shall be the duty of the Bank to advise the Government on any matter which in its opinion is likely to affect the achievement of the principal objectives....
>
> (2) The Bank may advise the Government on any matter within the jurisdiction of the Bank, whenever necessary and the Government may request the Bank to render advice......

While the provisions of the Acts in both Jamaica and Trinidad, to a certain extent, not fully, provide for Governments' responsibility, we believe that the British Guiana provision is not properly defined and there lies a potential for conflict. This potential for conflict becomes more apparent when it is observed that the Board of Directors are exclusively political appointments. While in the minds of the present day Governments, there is no doubt where the authority and responsibility lie, a change of Government in any territory, we believe, would present difficulties. "Written directives of a general nature" is not even incorporated into the Bank of Guyana Ordinance, and directives of a GENERAL NATURE, it seems to us, would eliminate a certain number of the powers of the various Banks.

We believe that provisions in the three territories, should be made for Governments' responsibility should any conflict arise. Recent experiences in Canada justify our proposal. In 1935, the Bank of Canada was created, recognizing the necessity of a central authority responsible for Canada's monetary policy. As mentioned above, initially, the Bank was under private ownership, intending to be free from political pressures. In 1936, a newly elected Liberal Government began moving towards public ownership of the Bank, culminating in 1938 in complete nationalization.[16]

The Bank's first Governor, Graham Towers, was appointed from a senior position in commercial banking, and this did much to reconcile the private financial institution to a publicly owned Central Bank. Moreover, by establishing it as a public corporation, the Government continued to acknowledge the desirability of safe guarding the Bank from partisan pressures "Nevertheless, until 1956, there was never any serious question that ultimate responsibility rested with the Government and in case of disagreement between the Government and the Bank, the Governor and directors of the Bank would have been expected to resign".[17]

In the face of rising unemployment and a falling rate of economic growth after 1957, the Bank of Canada maintained a tight monetary policy. This high interest rate and the concomitant inflow of capital, resulted in the maintenance of an exchange rate much higher than was realistic. Because of this unfavourable situation, a retreat from the earlier position followed: Mr. Walter Harris, the Liberal Minister of Finance, declared that the restrictive policy of the Bank of Canada was the responsibility of the Bank, and not the Government. After some quibbling by his Conservative successor, Mr. Donald Fleming,[18] Mr. Harris' statement was

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[16] Cairns, "Responsibility for Monetary Policy", p. 95, included in Readings in Canadian Banking and Monetary Policy.

[17] Ibid., p. 95.

[18] (Mr. Fleming is quoted as stating that a high rate of exchange is desirable for Canada as it reflects foreign confidence in the Canadian Economy. Press Release: March 31, 1960.

affirmed. By 1960, a direct conflict existed between the monetary policy followed by the Bank, and the Government's fiscal policy. A bitter controversy followed, in which the Governor found it convenient to make several public addresses which did not help the situation. Eventually, however, the Governor resigned. But, the controversy became one of the chief issues in the general elections and played a strong part in the subsequent devaluation and crisis which occurred in 1962.

The regulations governing the relationship between the Banks, and the various Governments of our territories seem to be inadequate and we take the liberty to suggest that provisions in the Acts be made to indicate the direct responsibility of the Government should there be any conflict arising. Mr. Rasminsky, the present Governor of the Bank of Canada issued a statement[19] on his appointment and this seems ideally suited for our recommendation. This has also been one of the Recommendations of the Royal Commission on Banking and Finance.[20] The substance of the statement which was repeated to the Royal Commission is as follows:

> I do not suggest a precise formula (i.e. a formula governing the responsibilities of Bank and the Government in relation to monetary policy) but have in mind two main principles to be established.
>
> (1) In the ordinary course of events, the Bank has the responsibility for monetary policy and

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[19] August 1st, 1961.

[20] _Report of the Royal Commission on Banking and Finance_, 1964.

(2) if the Government disapproves of the monetary policy being carried out by the Bank, it has the right, and the responsibility, to direct the Bank as to the policy which the Bank is to carry out.[21]

In the three territories the Banks are the Governments' bankers. However, the conditions relating to loans and advances to the Government are subject to certain requirements which vary in the various territories.

In Jamaica, the Bank is empowered to grant loans and advances to the Government for not more than six months provided, that advances may not exceed 15 percent of the estimated revenue of Jamaica for the year in which the advances are made, and that they are repaid not later than three months after the end of the financial year. The Bank's holdings of Jamaican Government securities in the Banking Division may not exceed seven time its authorized capital.

Similarly in Trinidad and Tobago outstanding advances to the Government should not exceed 15 percent of estimated revenues of the year in which the advances were initially made. However, in the event of advances made in an earlier year remain outstanding - the amount of further advances during the current year "shall be limited to the amount by which the total amount authorized in the year of the earliest outstanding advance exceeds the unpaid balance thereof."

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21 Bank of Canada, Evidence of the Governor before the Royal Commission on Banking and Finance, p. 4.

The Bank Holding of Trinidad and Tobago Government's securities should not exceed the greater amount of:

(1) Seven times the authorized capital of the Bank or

(2) Seven times the sum of the paid up capital of the Bank and the amount standing to the credit of its General Reserve Fund.

In British Guiana the Bank is empowered to make direct advances to the Government provided that at any one time the total outstanding amount shall not exceed 15 percent of the "average annual ordinary revenues collected and accounted for by the Government during the last three preceding financial years". The advances should not be outstanding for a total of more than 350 days.

Currency

In our three territories the Central Banks have the sole right to issue notes and coins. In Jamaica, "Jamaica Pounds", in Trinidad and Tobago, "Trinidad and Tobago Dollars" and in British Guiana, "Guyana Dollars" or the symbol "G $". Parity with sterling was established by the three Banks and The Bank of Jamaica and The Bank of Trinidad and Tobago are authorized "to issue and redeem their notes and coins on demand, for an equivalent amount of sterling, for immediate delivery in London".

Parity with sterling in the three territories has been established in different ways. In Jamaica the currency was valued directly in terms of sterling. However, In Trinidad and Tobago the parity of sterling was established by defining the Trinidad and Tobago currency in terms of the gold content of the British pound (0.518391 grams of fine gold). In British Guiana the Bank is empowered to determine the par value in terms of gold "in accordance with international agreements".

The difference between defining the value of local currency in sterling or in gold is significant. If the value of the currency is defined in terms of the British pound, then, it fluctuates with the value of the British pound. However, if the currency is defined in terms of gold then it is "independent" of the value of sterling. (Recently, Jamaican currency has been redefined in terms of gold).

One additional provision by the two Banks is the power to fix an exchange charge in respect of issue and redemption of their notes. By varying this charge the Banks will be able to control, to a certain extent, the inflow and outflow of funds to and from the territories. By changing this charge, the price of foreign exchange changes and to the extent that there is some price elasticity of demand for foreign exchange, the inflow or outflow will be controlled. In addition, the three Banks have the power to establish a minimum amount that may be tendered for redemption. In Jamaica the exchange charge in respect to issue and redemption may not exceed three-quarters of one percent on either side of parity, while in both Trinidad and Tobago and British Guiana, the charge may not exceed one percent of the sum exchanged.

The retention of a minimum tender, established under the Currency Board System, seems to us to be unnecessary and to a certain extent an encumbrance. The minimum tender was originally established primarily in order to minimize the frequency of buying and selling securities. This was necessary because of the 100 percent reserve backing requirement, in order to avoid having to buy securities when the prices were high and selling when prices were low. The establishment of a fiduciary issue of 50 percent by our Central Banks almost eliminates these risks. While the minimum tender reduces the urge to transfer funds out of our territories, it also is an additional constraint to funds coming in.

In the three territories the Banks are required to hold, at all times, assets in value sufficient to cover fully the value of the total amount of notes and coins for the time being in circulation. Various specifications as to the type of assets which the Banks may hold, are laid down in the various acts, but the net result, it would seem, is to ensure that the fiduciary issue which is the proportion covered by local securities, should not exceed 50 percent. The 50 percent of external assets could comprise of gold or foreign exchange, securities issued or guaranteed by the United Kingdom or Commonwealth Governments or deposits or money at call in London.

It is interesting to note that the power of note issue and the accompanying requirements, have replaced several of the ills of the previously rigid and inflexible Currency Board System. The 100 percent external reserves, which the Currency Board System required, is now reduced to 50 percent and the convertibility guarantees which the Currency Board System required is removed since the Banks have the discretionary power to change the parity of the various currencies (now defined in terms of gold). In addition, the Banks have the discretionary power to vary the exchange charge for issuing and redeeming notes thereby having some form of exchange rate policy.

The fact that the assets of the three Banks could be held in external securities and foreign exchange is an extremely important provision, for it allows Central Banks in the three territories to make special arrangements with each other. This is important since, while in recent times there have been several proposals to reorganize the International Monetary Fund, there is another view, to which we subscribe, and that is more international co-operation amongst the leading Central Banks in the form of ad-hoc arrangements. If we could anticipate an increase in relations between the territories of the West Indies, the need for Central Banks' co-operation becomes urgent.

While the failure of the first attempt at Federation of the West Indies is still within memory, there is becoming increasingly apparent, a strong need for economic co-operation. We believe that there is hope for some type of Customs Union arrangement, and the above provisions would facilitate increases in trade relations amongst the territories.

Central Banks' co-operation could take place in several ways but one which is becoming increasingly important is the "swap" arrangements between Central Banks. Under swap arrangements Central Banks can obtain foreign currencies in exchange for their own currencies, each country thus increasing its ability to withstand speculative pressures on its currency.

In this connection, various regional organizations may have an increasingly important function in strengthening the payment system. The European Payments Union, for example, operating during the period of European Currency inconvertibility, successfully encouraged freer multilateral trade and payments among its members by providing the means of multilateral payments settlements and mutual extensions of credit. After the return to convertibility in 1958 the Union was replaced with the European Monetary Agreement.[22]

The possibility of international co-operation is also facilitated by the fact that the various Acts give the Banks wide powers to deal in foreign exchange transactions.

Relations with other Banks

The relationship between the Central Bank and the banking and financial system is second in importance if at all, only to the Central Bank's relationship with the Government. The Central Bank's primary duty is to interpret the Government's thinking to the financial market and the

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[22] D.A. Snider, Introduction to International Economics, p. 511.

market's thinking to the Government. A Central Bank which is out of touch with its own financial community and does not enjoy their confidence can never be doing its job properly. "Confidence" here should be distinguished from "praise". It is normal and expected that financial institutions should be critical of the Central Bank's policy or lack of policy, to a certain extent this is healthy, and often helpful.[23] What is not healthy or helpful, of course, is that the financial community should have doubts either about the integrity or about the operational competence of the Central Bank or that their leaders should not be on good and close personal terms with the Central Bank Leaders.[24]

Because of the difficulty in properly effecting the powers granted to the Central Banks, and the various means by which the Banks can "get around" these restrictions, it is essential that a cordial relationship exist, as a result, the use of Moral Suasion, we believe would be the most effective "weapon" which the Central Banks could use.

The Central Banks, through the various Acts, are empowered with the traditional tools with which to carry out their Monetary Policies. These powers are, of course:

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[23] Cobbold, Op.Cit., p.4.

[24] Ibid., p.9.

1. Open Market Operations.

2. Discount Rate policy.

3. Reserve Requirements.

4. Selective Credit Controls.

In addition, the Central Banks are empowered to conduct the ordinary business of commercial banking.

We believe that one of the preconditons for an effective monetary policy is the exiatence of a developed money market. As mentioned before, the money markets in our territories are highly underdeveloped, but, however, the establishment of a Central Bank is one stage in its development. While a Central Bank can operate, with some effectiveness in the absence of a money market, "no organised money market can be worked effectively in the absence of a Central Bank."[25]

While it is sometimes believed that with the establishment of a Central Bank "a money market develops around it,"[26] and it would appear that this feeling still lingers in British Guiana, specific provisions are made in both Jamaica and Trinidad and Tobago for a conscious effort

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[25] S.N. Sen, Op. Cit., p.7.

[26] Evidence of Benjamin Strong, U.S.A. before the Royal Commission on Indian Currency and Finance, cited in Sen, Op. Cit., p.7.

by the Banks to foster development of a money market. Section 5 of the Bank of Jamaica Law empowers the Bank "to promote.....to foster the development of money and capital markets in Jamaica." In the Central Bank Act of Trinidad and Tobago, section 36 (g) provides the Bank with the power to "hold" and sell shares or securities......for the purpose of promoting the development of a money or securities market."

Unfortunately, the Bank of Guyana Ordinance, 1965 is conspicuously silent on ways and means of developing a money market. Thus one recalls the Report of the Royal Commission on India Currency and Finance "experience in other countries shows that with the creation of a central bank, and the consequential development of a sound banking system, the bill market comes into being in a surprisingly short time.[27]

Bank Rate and Rediscounting

In keeping with tradition, our three Central Banks have been authorized to publish a Bank Rate, and elaborate rules have been laid down regarding the kind of paper they are permitted to rediscount at the Bank Rate. In the three territories the Banks are authorized to purchase from, sell to, discount and rediscount bills of exchange, promissory notes and other credit instruments, issued for importation or exportation of goods and products, industrial or agricultural productions etc. However, the Banks are authorized to rediscount only instruments having a maturity date of 270 days, except Trinidad and Tobago where the maturity date must not exceed 180 days.

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[27] Cited in Sen. Op. Cit., p. 8.

The type of instruments which the Banks are authorized to rediscount is of particular importance in view of the aims and objectives of the various Central Banks. Because of the fact that the prime objective of the Central Banks is to promote economic development in economies which have traditionally been export economies these requirements are highly restrictive.

The most pressing need in our territories, we believe, is the need to disversify our economies, that is, increasing the output in the manufacturing sector, the construction sector and the agricultural sector; and in agriculture, to remove the traditional dependence on high cost, foreign subsidized, sugar production. In order to do this the Monetary Authorities must be able to channel funds into these sectors, sectors which have not been serviced by the commercial banks. The effectiveness of Rediscount Rate policy, in itself, is subject to several limitations in our territories. It was shown in Chapter III that under the Currency Board system interest rates in our territories cannot deviate very much from that of the United Kingdom, because of the interconnection between the money markets of the United Kingdom and our territories. While this dependence is to a certain extent moderated by the provisions of the various acts, a completely independent Bank Rate policy is highly unlikely.

The orthodox view of discount rate policy is that when the monetary authorities desire to enforce a restrictive monetary policy the discount rate would be raised and this would have two important effects, in the first place, the cost of funds would rise and to the extent that the demand for funds is interest elastic, the quantity demanded would decrease, and this would tend to decrease output and employment; secondly, the increase in the Bank Rate would be a signal of monetary restraint and tend to have a restrictive effect on output and employment.

Two conditions are necessary for the above effects to take place. In the first place banks must be borrowing regularly from the Monetary Authorities, and secondly, banks must be working at a minimum liquid asset ratio. These two conditions have not been met by the banks in our territories. It was seen that the liquid assets ratios have fluctuated widely over the years and more important, these ratios have been high. As a result these banks have always been prepared for "monetary restraint". In addition, whenever the need to borrow funds arose, there was always resort to Head Offices to provide the necessary funds. This would mean that in order to effect Bank Rate policy this attitude of borrowing from the Central Banks will have to be developed, and the banks will have to be working at a minimum liquid assets ratio.

Granted that the banks are made to work with a minimum liquid assets ratio, and there are several provisions in the various acts to ensure this (discussed below), and assuming that banks are "taught" to borrow at the Central Banks would this necessarily mean that Discount rate policy would be effective? If banks are going to be borrowing from the Central Banks they will be doing so only to meet urgent needs, i.e.

to make good, losses arising from adverse clearings or to meet insistent loan demands from their good customers. The demand for such funds is very insensitive to changes in the interest cost involved.

Moreover, if we were to assume a period of credit ease when the Bank Rate is decreased, assuming that banks are borrowing from the Central Banks, rediscounting the various instruments, will this assist in economic development, the chief aim in underdeveloped territories such as ours? We hardly believe so, since the restriction of the maturity date (180 days in Trinidad and Tobago and 270 days in Jamaica and British Guiana) plus the type of instruments, eliminate the possibility of funds going to the badly needed sectors of the economy.

Thus it would seem that economic development is hampered not only by the ineffectiveness of Discount Rate policy itself, but also by the type of instruments which the various Central Banks are permitted to discount and rediscount. In addition, the fact that a great deal of commercial banks advances in the territories is done in the form of overdraft arrangements means that there are very few instruments available for rediscounting. It is estimated that over 50 percent of commercial banks' loans and advances went in the form of overdrafts (53.7 percent) December 1966.

An observation of the State of Pakistan Act, 1956, gives us an idea as to what type of instruments the Banks could rediscount if economic development is to be encouraged through Monetary Policy. The Bank is authorized to carry on and transact several kinds of business:

> Section 17, (2a)....purchase sale and rediscount bills of exchange and promissory notes....for the purpose of financing seasonal agricultural operations or the marketing of crops maturing within 15 months.............

> Section 17, (2d)....financing the development of agriculture or of agricultural or animal products or the needs of industry having maturities not exceeding 5 years.

In the case of instruments maturing not more than 5 years, the Bank fixes a limit each year.

> Section 17, (6a) purchase, holding and sale of shares and debentures of any banking company....established to promote economic development of any specified area and any corporation established for the purpose of promoting agricultural or industrial development in the country,

> Section 17, (12) the sale and realization of all property, whether movable or immovable which may in any way come into the possession of the Bank in satisfaction, or part satisfaction of any of its claims.

Extract from the Pakistan Act have been quoted in order to show the paucity of our provision for economic development through Rediscount Rate policy.

Open Market Operations

In our three territories the Central Banks have the power to conduct open market operations. However, the absence of a well developed money and capital market greatly reduces the effectiveness of these operations. In addition, the large fluctuations in liquid assets ratios of the commercial banks greatly reduce the effectiveness of open market operations, even if the commercial banks are made to maintain minimum liquid assets ratios.

While open market operations would appear to be relatively ineffective, an effect similar to that which is desired under open market operations could be achieved by the Banks transferring funds directly into and out of the commercial banks by maintaining their own accounts at the various banks. The fewness of the number of banks in the territories would facilitate this. Thus when it is desirable to conduct a restrictive monetary policy, the Central Banks, having deposits at the commercial banks, could transfer some of their funds out of the commercial banks, thus reducing the amount of funds available to the banking system as a whole.

While most of the other tools of monetary policy have a general impact on all the commercial banks in the territory a well conducted policy by the Central Bank can, by the transferring of its deposits, affect individual commercial banks. This is extremely important particularly in Trinidad and Tobago where the banking business is dominated by one particular bank.

Reserve Requirements

In our three territories the commercial banks are required to deposit a certain proportion of their deposit liabilities at the various Central Banks. The Central Banks all have the power to vary these reserves. In Jamaica it can be varied between 5 and 15 percent, in Trinidad and Tobago between 5 and 100 percent, and in British Guiana between 0 and 100 percent.

The Central Bank Act of Trinidad and Tobago specifically provides for the manner in which the ratio is to be computed. The total amount of deposits is arrived at by getting an average of the deposits on each Wednesday of the previous five Wednesdays, except the last one. Provision in the Act is also made to allow the banks to count all or part of their notes and coins as cash reserve balance. While the Bank is prepared to pay interest on balances held at the Bank in excess of the required amount, it also has the power to charge interest on any deficiency, though the interest cannot exceed 1/30 of 1 percent per day.

Several criticisms have been levelled against the requirement by Central Banks to have deposits, deposited there, and the power of Central Banks to vary these ratios. Criticisms of the actual requirement to have part of their deposit liabilities deposited at the Central Banks fall into two categories. Firstly, by so doing it is argued, it introduces an inelastic principle into the working of the banking system "it seems incongruous to place trading banks in a straight jacket, when so many other important elements of the monetary system remain unchecked".[28] Secondly, it is claimed that the maintenance of "idle" non-interest bearing balances at the Central Banks is similar to a tax on the credit system. This is

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[28] Evidence before the Royal Commission on the Banking System in Australia, 1937, p. 1224, cited by S.N. Sen Op. Cit., p. 86.

so because it reduces the amount of funds available for loans and advances, hence the interest rate on loans and advances would rise.

While we believe the first argument is valid, the second is not. In Chapter III we observed that the liquid assets ratios of the commercial banks were extremely high, so that the maintenance of these deposits at the Banks will not reduce the amount of funds available to the banking system for loans and advances.

The validity of the first argument rests not on the maintenance of deposits as such, but on the fact that having only the banks and not the other financial institutions, "near banks" controlled in this way puts the banks at a competitive disadvantage. In the three territories, there are absolutely no provisions for the control of the other financial institutions, except for Section 41 of the Bank of Guyana Ordinance which attempts to control the loans and advances of all Financial Institutions.

One objection against Central Banks' authority to vary these ratios is based on the uneveness of the impact. Granted that the varying of the reserve ratios does have an uneven impact on different banks, so do all other actions of the monetary authorities. Thus, if the Bank raises the Bank Rate certain banks which do not borrow from the Bank will not be affected, while those which do, will be. When the government sells securities, the reserves of certain banks will be affected much more than others. "The real question is not whether the method of variable reserves affects banks differently, but whether it is on the whole, effective in bringing about a particular situation in the money market." [29]

A much stronger objection to the use of reserve requirments as a tool of monetary policy, we believe, is that because of the uneveness of its impact, it will have a deterrent effect on the establishment of indigenous banks, and where they have already been established, it will place them at a competitive disadvantage, since they will not have recourse to "Head Office" funds, even on a temporary basis.

In terms of relative effectiveness, however, the power to vary the reserve ratio is the most powerful instrument of monetary policy, since,as it was seen earlier, both Discount Rate policy and Open Market Operations are of very limited effectiveness. The importance of varying the reserve ratio rather than changing the Bank Rate or conducting Open Market Operations is that the effect is sudden and the direction of the change of monetary policy is definite and obvious. An increase in the Bank Rate, whereas it could be a signal by the Monetary Authorities of monetary restraint, it could also be a reaction to an increase in the United Kingdom's Bank Rate. However, an increase in the reserve requirement,shows unmistakably that there is monetary restraint, for not only does it convey the Authorities' thinking, but it reduces the absolute amount of banks' deposits available for loans and advances.

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[29] S.N.Sen, Op.Cit., p. 99.

In the three territories the three Central Banks are authorized to vary the reserve ratio in entirely different ways. In Jamaica both, a minimum and a maximum are established, In Trinidad and Tobago a minimum is established and no maximum, while in British Guiana no minimum has been established while a maximum has been established.[30] In addition, in British Guiana provision is made explicitly under Section 41 (1) to differentiate between demand and time deposits, no doubt being aware that demand deposits by their very nature are payable on demand, and during the post war years have fluctuated greatly. While not explicitly stating so, provision is also made, under Section 40, (2a and b) of the Central Bank Act of Trinidad and Tobago, to do likewise, if need be.

In both Jamaica and British Guiana, which have established maximum reserve ratio requirements there are prescribed limits to which the Bank can so change these ratios. In Jamaica, variations in the cash reserve ratio is restricted to two percentage points per months with at least one month's notice given to the banks. In British Guiana the increase may not exceed five percentage points in any one month, while the Bank must give the banks at least one month's notice before the change.

We believe that the system in British Guiana is the most effective for several reasons. The establishment of a maximum reserve ratio gives the banks the assurance that they would always be left in a position

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[30] Jamaica between 5% and 15%
Trinidad and Tobago not less than 5%
British Guiana not more than 20%

in which they will have reasonably sufficient amount of cash balances. This we believe is essential for long run planning and the fact that there are prescribed means and stages in which these changes will be made, increases confidence. While the Jamaican provision is similar, the establishment of a minimum reserve requirement eliminates the possibility of zero reserves on certain deposits in order to encourage an expansion of loans and advances. In addition, the provision of distinguishing between demand and time deposits in British Guiana is an additional incentive to the banks to actively encourage time deposits which has a lower reserve requirement and pays interest (the power to vary liquid assets ratio, Section 41 (1), by the Bank is not more than 15 percent nor more than 30 percent for demand deposits and not less than 10 percent nor more than 20 percent for time liabilities).

The provisions, and lack of provisions, in the Central Bank Act in Trinidad and Tobago are most unusual, for it is purely negative in its approach, especially when the provisions of selective credit controls (discussed below) are taken into consideration also. These provisions equip the Bank of Trinidad and Tobago only to stop a credit expansion. No maximum has been established, hence the banks can never be certain of the amount of funds they will have available to make advances. In addition, the wide discretionary power which the Bank has to change the ratio means that the banks must always be in a highly liquid position.

Consequently, the amount of loans and advances, and more important, the type of loans and advances needed in the economy (mentioned above) may not come from the commercial banks.

In both Jamaica and Trinidad and Tobago, the Central Banks, in addition to the power to establish and vary the reserve ratio, also have the authority to establish and vary the local assets ratio. This is the proportion of total deposit liabilities which the banks must hold in local assets. This is intended, it would seem, to minimize the amount of deposit liabilities which are held abroad. An increase in this ratio will mean that Foreign balances, if they exist will have to be reduced. Any variation in this ratio will be effective after six months notice, but any variation of the ratio would not exceed 10 percent in Trinidad and Tobago and 5 percent in Jamaica.

Selective Credit Controls

In our three territories the Central Banks are authorized to use selective credit controls to effect their monetary policies. In Trinidad, under Section 42 (1) of the Central Bank Act, the Bank is authorized to "encourage the expansion of credit in any or all sectors of the economy......" by the use of selective credit controls. However, Section 42 (2) which explains the provisions, is completely negative in its approach:

The Bank may, after consultation with the commercial banks, and with the approval of the Minister, impose controls in respect of the volume, terms and conditions, upon which credit may be made available to all or any sections of the economy, when in its judgement, the imposition of such controls is necessary to restrict or prevent an undue expansion of credit.

Specific measures to encourage the expansion of loans and advances are not outlined and to a very great extent the Ordinance of the Bank of Guyana does this. Section 42 of the Ordinance, authorizes the Banks to announce the maximum or minimum rates of interest and other charges which banks may

(a) impose for specified type of loans, advances or other credits

(b) pay on deposit.

The power to fix interest on loans, if properly used, we bèlieve would be ideal for an expansion of loans and advances, In this way the Bank will be in a position to ensure that customers are receiving adequate protection. But moreover, a system of equalized interest rate would make it easier for the Government to encourage loans through interest incentives in the form of rebates. If this is coupled with Government guarantees, as we recommended, there will likely be an increase in loans and advances to the much needed sectors of the economy.

It is evident that the removal of the Currency Board System and the replacement of the Central Banks has been of a great benefit to our three territories. However, the effectiveness of monetary policy is extremely limited under present conditions. Nevertheless, the specific provision for the development of a money market and a capital market will undoubtedly increase its effectiveness. There is no doubt that the highly restrictive qualifications on the types of instruments which the Banks can discount will make monetary policy ineffective in fostering economic development, but one must be optimistic and expect Central Banks' attitude towards this to change. The power to vary the local assets ratios and the development of a money market will certainly ensure the repatriation of foreign balances. In addition, the ability of the Banks to buy and sell foreign exchange on demand will make it less urgent for the banks to have large foreign balances to finance trade.

The possibility of economic integration of the region is ever present, and the establishment of Central Banks in the various territories will facilitate this if and when the time arrives, since the Banks have wide powers to indulge in International transactions.

CHAPTER V

Criticisms and Conclusions

The underdeveloped nature of the commercial banking system mentioned earlier was expressed in the following characteristics.

(a) The low density ratios

(b) Demand deposits as a proportion of the money supply.

(c) The ratio of bank advances as a proportion ot total deposits.

The low density ratios can only be improved by the opening of more branches and it is evident that within the past few years there has been a rapid increase in the number of banks and branches. However, in spite of the fact that the two American Banks i.e., Chase Manhattan and First National City Bank, have moved into the territories, because of the peculiar organization of their head offices - the unit banking system of the United States - there is little hope that they will open many more offices in the same territories.

The low proportion that demand deposits bears to the money supply, as was mentioned before, is a result of two factors, the underdevelopment of the chequing habit and the inconvenient hours in which the banks are opened to the public. We believe that if banks were to open to the public from 9 A.M. to 2 P.M. Monday to Friday, this will go a long way towards improving the situation. It will also set the stage for being able, at some future time, to close banks on Saturdays.

By changing the banking hours as we suggest, it will certainly create problems, but they are not insurmountable ones. Bank employees do need some time without "distrubance" from the public in order to balance their journals and post their ledgers. At present these are done between 1.00 P.M. and 4.00 P.M. (12 to 1 is lunch time) thus requiring approximately three hours.

By changing to the hours we suggest there will still be three hours, two on the same day, and one on the following morning. This, of course, will necessitate switching to the "delayed posting system", very common in North America. Under this method some ledgers are posted the following morning, and are only "sight paid" on the particular day. When a ledger is "sight paid", it simply means that the account is only checked for funds and the actual debiting of the account is done at some future time.

Another problem which would be created if the hours were to be changed, would be the coinciding of the "rush" hour of customers with the lunch hours of some employees. However, this could be easily solved by increasing the staff. Since most bank employees have started off from the "bottom" (as tellers), this would facilitate the change in positions if the need arises to appoint "Lunch Hour Tellers".

The fact that the loans and advances ratios in our territories are low simply reflects the fact that the criteria for qualifying for bank credit have not been satisfied. The risks involved have been too great. Incomes are low, continuity uncertain and intention to pay unknown, in the absence of any developed credit bureaus. In spite of the fact that these ratios have been relatively low, we observed large amounts of loans and advances going towards the Distributive Trades and Personal and Professional Categories. These are the only sectors which satisfy the criteria for bank advances, and would continue to do so.

In an attempt to have commercial banks increase their loans and advances, we take the liberty to recommend an increase in Government Guarantees in order to remove the great risks involved. This would mean an increase in Jamaica and British Guiana, which have already undertaken some guarantees, and an introduction in Trinidad and Tobago since there have not been any guarantees so far. While the Central Banks are equipped with broad powers to encourage an increase in loans e.g., the power to impose selective credit controls in order "to encourage the expansion of credit in any or all sectors of the economy", this we believe is not strong enough to remove the risks involved.

The situations in British Guiana and Jamaica in the early 1960's substantiate our point. As was noted in Chapter III there was a severe contraction by the commercial banks in Jamaica in 1962 and 1963 and this was done even after the establishment of the Bank of Jamaica, whereas in British Guiana the increase in loans to agriculture which took place at that time, was purely as a result of Government Guarantees to the rice industry.

The inadequacy of the Currency Board System has been constantly mentioned. The two important reasons why it was thought to have served its usefulness were firstly, the 100 percent reserve backing of local currency which it demanded and secondly, the convertibility guarantees which meant that funds could be transferred to and from London, without fear of loss through exchange rate changes. In addition, the Currency Boards, in themselves, do little or nothing directly, to foster the development of local banking systems and other financial apparatus, and to encourage domestic savings and capital investment.[1]

The importance of the commercial banks, because of the relationship between loans and advances and the state of the balance of payments, has also been mentioned and the observation that they operated without any form of control has also been noted. Furthermore, the flow of credit to certain sectors and certain enterprises was shown to be quite inadequate. Inter-bank indebtedness was being settled outside the territories altogether, while a high proportion of local deposits was being kept abroad. Because of these factors the need for change became ever pressing.

Granted that the Currency Board had served its usefulness, the question arises as to whether this necessarily meant the replacing of the Currency Boards by Central Banks as our three territories have done. While judgement on the effectiveness of Central Banking in our territories has been postponed, two important observations are necessary. Firstly, a Central Bank in itself is an expensive organization in terms of money and manpower; and the replacement of securities on the United Kingdom financial market as reserves, by gold, a non-earning asset, means that to the extent that this is done there is a reduction of income accruing to the territories. Moreover, to the extent that it prefers to hold local assets rather than United Kingdom investments, the interest that comprises part of its revenue will come to it in the form of local

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[1] W.F. Crick, Commonwealth Banking Systems, p. 13.

currency, rather than the badly needed foreign exchange.

Secondly, the most pressing problem that faces the territories is the need for diversification; changing the structure of production, so that the dependence on the export of a few primary products for such a great proportion of G.D.P. will be reduced. The Central Banks, by themselves can do little to help this situation. This is because of several factors, the most significant are the restrictions under discount rate policy. It seems to us that this does not permit the Banks to deviate very much from the traditional attitude of the commercial banks in their lending policies. Under section 37 of the Central Bank Act of Trinidad and Tobago, the Bank may not:

(a) Engage in trade;

(b) Purchase the shares of any company or grant loans upon security of any shares;

(c) Purchase the shares of any corporation including the shares of any banking company;

(d) Lend money or make advances upon security of real property;

(e) Grant unsecured loans or advances.

As previously mentioned, because of the large fluctuations in the demand deposits of the commercial banks and the fact that these deposits are payable on demand, the commercial banks must hold a substantial part of their deposits in liquid assets and only make loans on a short term basis. One would expect that Central Banks, whose main aim should be the promotion of economic development, would be in a position to hold assets less liquid and make advances of a longer term nature.

A severe criticism of the Currency Board Systems, which the Central Banks replaced was that, in themselves, they did nothing to foster the development of an indigenous banking movement. In spite of this, provision for the development of local banks is conspicuously absent from the Bank Acts.

The importance of the commercial banks, and the need for some control mentioned previously, has, we believe, been adequately provided for in the Acts but two important points should be noted. Firstly, there is no provision for the control of "near-banks" and the selective controls are primarily negative in nature.

While we have excluded the "near-banks" from our analysis, we are very conscious of the fact that they play an important role. In one important aspect they are identical to the commercial banks, and it is a similarity of crucial importance, in the fact that they are foreign owned and hold a substantial proportion of their assets abroad. Since provision in the Acts ensures that the commercial banks would maintain a certain proportion of their assets locally, then it seems necessary that the near banks, particularly the Insurance Companies, need to be regulated also.

In conclusion it would seem that the post war performance of the Commercial Banks in the territories has contributed very little to the most pressing needs of the region, namely, the need for diversification of the economies, and the reduction of foreign dependence. The Central Banks, as they are presently constituted have done little to remedy the situation. This we believe is a recognition of the fact that these ills cannot be cured mainly through Monetary policy. While the development of a local capital market and indigenous banks will ease the situation, we believe the very nature of Commercial banking i.e., the need to be very liquid, forbids the mobilization of funds to the sectors which need them most.

It is our belief that because of the limited size of the markets, the territories would continue to depend heavily on foreign trade and foreign finance. Consequently, only a co-ordination of both monetary and fiscal policy can remedy the situation.

TABLE 1.0A

INDUSTRIAL ORIGIN OF G.D.P. AT CURRENT FACTOR COST - JAMAICA
(Millions of W.I. Dollars)

		1953	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
1.	Agriculture, Forestry, Hunting & Fishing	108.5	125.8	123.4	127.7	128.6	125.8	124.8	131.5	137.8	164.2	165.1
2.	Mining & Quarrying	12.5	31.2	41.8	81.1	84.0	77.8	99.8	106.1	110.8	109.4	123.8
3.	Manufacturing	70.6	87.8	99.4	117.1	119.5	131.0	141.1	157.0	157.9	188.6	203.1
4.	Construction	49.4	61.9	97.0	125.3	117.6	116.2	123.4	127.7	130.6	128.6	139.7
5.	Electricity, Gas & Water	3.8	4.8	5.8	8.2	9.1	10.1	11.0	13.0	13.9	15.4	17.7
6.	Transportation, Storage & Communication	33.6	46.1	50.4	59.0	61.4	73.0	80.2	88.8	92.2	89.3	96.5
7.	Wholesale and Retail Trade[1]	87.8	109.9	123.4	153.1	159.8	169.0	186.7	184.8	185.0	184.8	198.7
8.	Banking, Insurance & Real Estate	14.9	24.5	35.5	43.2	56.2	35.0	34.6	43.7	47.0	40.3	44.6
9.	Ownership of dwelling	25.4	29.3	29.8	30.7	31.7	29.8	32.3	36.0	38.4	41.3	43.7
10.	Public Administration and Defence[2,3]	33.1	43.2	54.2	59.5	62.9	57.6	63.4	71.5	82.0	85.9	91.2
11.	Services[3]	72.5	90.2	100.3	116.2	122.9	121.9	132.0	142.6	151.7	167.5	181.9
	G.D.P. At Current Factor	512.2	654.7	760.8	921.1	953.8	947.0	1029.1	1101.6	1146.7	1215.4	1306.1

1. Product originating in animal transportation is included in item 7.
2. Comprises the gross product originating in various boards and two development corporation and general government education and medical services. Beginning 1957 excludes statutory boards and dvelopment corporation.
3. General government education and medical services are included in item 10.

Source : U.N. Year Book of National Accounts, 1965.

TABLE 1.0B

INDUSTRIAL ORIGIN OF G.D.P. AT CURRENT FACTOR COST - TRINIDAD AND TOBAGO
(Million of W.I. Dollars)

		1953	1955	1956	1957	1958	1959	1960	1961	1962	1963
1.	Agriculture, Forestry Hunting & Fishing	67.0	81.0	81.0	90.0	94.7	94.9	102.8	108.0	103.9	107.2
2.	Mining & Quarrying [1]	123.5	141.5	190.2	240.7	237.1	265.5	269.0	290.8	295.9	291.2
3.	Manufacturing [1]	50.8	59.4	61.2	77.9	91.3	103.1	108.2	119.5	132.1	136.9
4.	Construction [2]	8.1	14.1	17.0	20.7	32.3	36.3	40.6	49.7	55.3	59.6
5.	Electricity, Gas & Water	13.1	14.9	16.2	18.7	19.6	21.3	28.4	36.6	41.5	43.6
6.	Transportation, Storage & Communication	10.2	14.6	16.8	18.3	22.1	23.9	32.4	36.0	39.0	42.6
7.	Wholesale and Retail Trade	35.1	54.3	72.6	85.9	97.2	109.3	117.2	126.1	134.7	137.6
8.	Banking, Insurance & Real Estate	7.3	9.6	10.7	12.2	15.1	16.1	20.0	19.8	21.0	21.2
9.	Ownership of dwelling	9.6	10.8	11.0	11.0	11.5	13.4	16.8	19.6	21.6	23.3
10.	Public Administration and Defence [3,4]	40.7	48.6	51.2	52.6	63.4	70.8	82.5	93.1	100.5	111.4
11.	Services [4]	20.9	27.3	28.4	31.1	35.1	44.5	48.0	55.6	60.2	63.2
	G.D.P. At Factor Cost	386.3	476.1	556.3	659.1	719.4	799.1	865.9	954.8	1005.7	1037.2

1. Oil refining is included in item 2.
2. Excludes our - account construction by general government and by enterprises.
3. Water and sanitary services are included in item 10.
4. Health and educational services of general government are included in item 10.

Source : U.N. Year Book of National Accounts 1965

TABLE 1.0C

INDUSTRIAL ORIGIN OF G. D. P. AT CURRENT FACTOR COST - BRITISH GUIANA
(Millions of W.I. Dollars)

		1953	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
1.	Agriculture, Forestry, Hunting & Fishing	53.1	51.4	52.7	56.5	58.6	55.8	69.9	78.0	80.5	78.1	81.4
2.	Mining & Quarrying	20.0	19.1	23.5	24.7	19.0	24.5	29.1	37.3	49.9	35.2	53.3
3.	Manufacturing	26.8	26.0	23.3	29.5	29.6	28.7	27.2	31.5	35.6	40.4	36.7
4.	Construction	10.9	18.5	21.5	23.1	19.1	20.2	25.0	20.8	20.8	14.3	16.0
5.	Electricity, Gas & Water	1	1	1	1	1	1	3	3	3	3	3
6.	Transportation, Storage & Communication	10.7	11.9	13.7	46.5	46.1	45.9	19.8	21.8	22.1	17.6	20.2
7.	Wholesale and Retail Trade	24.0	29.0	30.5				37.2	39.2	36.6	28.4	39.9
8.	Banking, Insurance & Real Estate	2	2	2	2	2	2	8.5	9.1	9.0	8.6	9.3
9.	Ownership of dwelling	5.4	5.4	5.5	5.6	5.6	5.6	8.2	8.4	8.5	8.7	8.3
10.	Public Administration and defence	16.8	20.9	27.5	29.7	25.3	27.5	25.6[3]	30.5[3]	30.5[3]	28.0[3]	32.0[3]
11.	Services[2]	9.1	10.5	9.9	11.0	11.3	11.6	13.1	13.2	13.7	12.5	14.1
	G.D.P. At Factor Cost	176.9	192.7	208.0	226.6	214.6	219.8	263.5	289.8	307.2	271.7	310.9

1. Electricity is included in item 3, water and sanitary services are included in item 10.
2. Item 8 is included in item 11.
3. Item 5 is included in item 10.

Source : U.N. Year Book of National Accounts, 1965.

TABLE 1.1

FOREIGN BALANCES OF COMMERCIAL BANKS
(Millions of Dollars)

	TRINIDAD AND TOBAGO[a]			JAMAICA[b]			BRITISH GUIANA[c]		
	Total Assets (1)	Balances due by banks abroad (2)	Col. 2 % Col. 1 (3)%	Total Assets (4)	Blanaces due by banks abroad (5)	Col. 5 % Col. 4 (6)%	Total Assets (7)	Balances due by banks abroad (8)	Col. 8 % Col. 7 (9)%
1946	66.3	40.3	60.8	63.9	22.4	35.0	NA	NA	NA
1947	58.3	22.8	39.1	72.5	10.6	14.6	NA	NA	NA
1948	58.9	28.5	48.4	72.5	7.7	10.6	NA	NA	NA
1949	70.7	39.3	55.6	72.0	0.5	0.7	NA	NA	NA
1950	77.0	41.1	53.4	80.6	11.0	13.6	NA	NA	NA
1951	88.7	42.5	54.7	89.8	10.1	11.2	23.2	10.2	44.4
1952	91.4	45.8	57.5	95.5	11.0	11.4	24.0	11.1	46.1
1953	100.3	52.6	59.9	111.4	15.8	14.2	33.0	15.8	49.4
1954	112.4	60.1	61.6	126.7	21.6	17.1	34.4	13.5	40.9
1955	118.7	56.9	54.8	132.0	15.4	11.6	34.4	10.0	29.4
1956	131.1	66.5	58.0	152.6	26.4	17.3	34.3	10.1	29.8
1957	174.0	106.8	70.0	202.1	31.2	15.4	37.3	9.6	25.9
1958	172.5	91.5	65.5	212.6	6.2	2.9	41.1	6.5	15.9
1959	199.5	97.1	57.6	238.1	7.2	3.0	43.3	10.0	23.3
1960	205.0	82.7	46.8	263.0	9.6	3.6	54.0	4.9	9.1
1961	199.9	59.7	34.2	322.6	2.4	0.7	51.3	4.6	9.0
1962	212.2	43.8	22.6	337.0	13.9	4.1	51.4	11.5	22.4
1963	252.9	70.0	33.3	342.2	27.4	8.0	64.8	25.2	38.9
1964	267.1	35.1	13.1	420.5	15.4	3.7	74.7	31.4	42.0

Sources : (1) Annual Statistical Digest 1964.
(2) Digest of Statistics 1950-1952. Monetary Statistics 1962-1964.
(3) Quarterly Review of Financial Statistics, June 1965.

TABLE 1.2

CHANGES IN INTEREST RATE

Date	Bank Rate %	Date	Trinidad[a] & Tobago %	Date	Jamaica[b] %	Date	British[c] Guiana %	Date	Trinidad[a] & Tobago %	Date	Jamaica[b] %	Date	British[c] Guiana %
11/3/52	4	NA	NA	NA	NA	21/3/52	6	NA	NA	NA	NA	3/52	5½
17/9/53	3½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
13/5/54	3	NA	NA	NA	NA	6/54	5½	NA	NA	NA	NA	6/54	5
27/1/55	3½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
24/2/55	4½	NA	NA	NA	NA	3/55	6	NA	NA	NA	NA	3/55	5½
16/2/56	5½	NA	NA	NA	NA	3/56	6¾	NA	NA	NA	NA	3/56	6¼
7/2/57	5	1/3/57	6½	NA	NA	3/57	6½	1/3/57	6	NA	NA	3/57	6
19/9/57	7	1/10/57	7½	1/10/57	7½	10/57	7½	1/10/57	7	1/10/57	7	10/58	7
20/3/58	6	1/4/58	7	1/4/58	7	4/58	7	1/4/58	6½	1/4/58	6½	4/58	6½
22/4/58	5½	29/5/58	6¾	1/6/58	6¾	6/58	6¾	29/5/58	6¼	1/6/58	6¼	6/58	6¼
19/6/58	5	25/6/58	6½	1/7/58	6½	7/58	6½	25/6/58	6	1/7/58	6	7/58	6
14/8/58	4½	NA	NA	1/9/58	6	9/58	6	1/9/58	5½	1/9/58	5½	9/58	5½
20/11/58	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
21/1/60	5	23/6/60	6½	NA	NA	2/60	6½	21/1/60	6½	NA	NA	2/60	6
23/6/60	6	NA	NA	NA	NA	7/60	7	23/6/60	7	NA	NA	NA	NA
27/8/60	5½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
8/12/60	5	2/1/61	6½	NA	NA	1/61	6½	2/1/61	6½	NA	NA	1/61	6½
15/7/61	7			NA	NA	8/61	7½	1/8/61	7½	1/8/61	7½	8/61	7½
5/10/61	6½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
8/3/62	5½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
22/4/62	5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
26/4/62	4½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

NA - Not Available

Sources :

[a] Economic Survey of Trinidad and Tobago, 1953 to 1958 and Files of Barclays Bank D. C. O., Trinidad.

[b] Economic Survey, Jamaica, 1958 and Bank of Jamaica Annual Report 1962.

[c] C. Y. Thomas, op. cit., Table 20.

TABLE 1.3

ANALYSIS OF BANK ADVANCES - JAMAICA
(Millions of Dollars)

	1956	1957	1958	1959	1960	1961
Primary Production	14.9	18.2	27.8	30.7	30.7	32.6
Primary Production as % of total	22	16	19	19	16	16
Other Industries	25.0	53.2	60.5	66.7	74.9	90.7
Other Industries as % of total	33	46	42	40	40	45
Other	32.6	43.2	55.2	68.6	83.0	80.2
Other as % of total	42	38	39	41	44	39
Total	75.8	114.7	143.0	166.1	188.6	203.5

	December 1961	
Government and Other public bodies	$ 7.7	3.5%
Credit & Other Financial Institutes	4.3	2.2
Personal & Professional	28.8	14.0
Agriculture & Fishing	13.4	6.5
Mining	19.2	9.4
Industry : -		
(a) Sugar, Rum & Molasses	10.5	5.0
(b) Food, Drink & Tobacco	4.3	2.1
(c) Textile, Leather & Footwear	4.3	2.1
(d) Other Industry	12.5	6.0
Building & Construction	8.6	4.2
Land Development	8.2	3.9
Distributive Trades	59.5	29.0
Hotels	9.6	4.8
Entertainment	1.9	1.0
Other	11.0	6.2
Totals	$205.4	100%

Source : Bank of Jamaica - Annual Report 1962

TABLE 1.4

ANALYSIS OF BANK ADVANCES - TRINIDAD AND TOBAGO
(Millions of Dollars)

	1958	1959	1960	1961	1962
Primary Production	3.7	4.5	6.3	3.7	5.1
Primary Production as % of total	8.2	7.3	7.6	3.6	4.4
Other Industries	21.4	29.6	40.1	40.1	41.6
Other Industries as % of total	47.7	48.3	48.3	39.7	36.5
Other	19.7	27.2	36.6	52.2	67.2
Other as % of total	43.9	44.4	44.1	51.6	59.0
Total	44.8	61.2	83.0	101.0	113.9

	1963	%	1964	%
Agriculture and Related Industries	1.9	1.6	3.9	2.9
Mining Refining & Petroleum	0.6	0.5	0.1	0.0
Other Mining & Quarrying	0.5	0.4	0.4	0.3
Construction	14.1	11.9	14.9	11.1
Distributive Trades	27.3	23.1	34.1	25.5
Transportation Storage Wharehouse & Communication	4.4	3.7	2.1	1.5
Financial Institutions	5.4	4.5	3.5	2.6
Hotels, Boarding Houses etc.	0.2	0.1	0.7	0.5
Personal & all other Loans	0.8	0.6	2.3	1.7
Business & Professional	52.7	44.6	59.8	44.7
Services	3.9	3.3	5.8	4.3
Manufacturing	14.1	11.9	14.9	11.1
Total	118.0		133.6	

Source : Annual Statistical Digest, 1964.

TABLE 1.5

ANALYSIS OF BANK ADVANCES - BRITISH GUIANA
(Millions of Dollars)

	1956	1957	1958	1959	1960
Industry	7.7	8.1	12.0	7.3	8.5
Industry as % of total	55.4	51.6	55.8	32.7	25.9
Agriculture	3.5	3.8	5.3	7.6	13.3
Agriculture as % of total	25.1	24.2	24.6	34.0	40.5
Other	2.7	3.9	4.2	7.3	11.0
Other as % of total	19.4	24.8	19.5	32.7	33.5
Total	13.9	15.7	21.5	22.3	32.8

	1965
Primary Industries (Foreign owned)	$ 1.0
Primary Industries (Other)	10.6
Manufacturing and Power	4.8
Construction	0.3
Distributive Trades	13.1
Central and Local Authorities	4.9
Other Business Loans	2.3
Total Business Loans	37.0
Personal Loans	2.8
Total Loans and Advances	$39.9

Source : Thomas, Monetary & Financial Arrangments in A Dependent Monetary Economy and Quarterly Review of Financial Statistics, March 1966.

TABLE 1.6.

CHARACTERISTICS OF FOREIGN TRADE (Millions of Dollars)

	Trinidad & Tobago		Balance	Jamaica		Balance	British Guiana		Balance
	Imports	Exports	of Trade	Imports	Exports	of Trade	Imports	Exports	of Trade
1953	$236.0	$256.5	20.5	$170.5	$124.2	- 36.3	$ 72.2	$ 82.7	10.5
1954	249.5	261.6	12.1	179.1	150.6	- 28.5	80.2	84.8	4.6
1955	294.4	285.3	- 9.1	219.2	164.9	- 54.3	94.8	90.1	- 4.7
1956	301.5	330.2	29.3	299.8	192.8	-107.0	100.2	94.7	- 5.5
1957	355.8	392.6	36.8	320.1	246.8	- 73.3	118.9	108.1	-10.8
1958	412.0	424.9	12.9	310.1	229.8	- 80.3	116.0	96.6	-19.4
1959	448.1	449.1	1.0	329.5	231.2	- 98.3	110.7	103.5	- 7.2
1960	504.0	491.3	-13.7	372.0	282.5	- 89.5	147.3	126.8	-20.5
1961	584.0	593.5	9.5	361.9	305.7	- 56.2	146.6	148.3	1.7
1962	605.6	592.0	-13.6	382.1	319.1	- 63.0	126.3	164.2	37.9
1963	646.4	640.7	5.7	386.5	351.3	- 35.2	117.8	174.8	57.0
1964	724.9	694.5	-30.4	483.4	378.5	-104.9	149.8	162.8	13.0

Source : U.N. Yearbook of National Accounts 1965.

TABLE 1.7

CLASSIFICATION OF DEPOSITS (Millions of Dollars)

Date	TRINIDAD AND TOBAGO[a]				JAMAICA[b]				BRITISH GUIANA[c]			
	Total	Demand	Saving	Term	Total	Demand	Saving	Term	Total	Demand	Saving	Term
1946	60.0	31.6	26.8	1.6	63.5	32.8	28.5	4.0	NA	NA	NA	NA
1947	51.0	26.2	24.0	0.8	65.2	36.1	24.7	4.4	NA	NA	NA	NA
1948	54.8	30.9	22.9	0.9	64.7	36.8	23.7	4.1	NA	NA	NA	NA
1949	66.2	41.8	23.2	1.2	64.3	37.2	23.7	3.4	NA	NA	NA	NA
1950	71.4	36.5	25.8	9.2	72.5	43.5	25.5	3.4	17.0	10.2	6.7	0.1
1951	80.0	35.8	27.0	17.2	75.4	49.4	27.6	3.2	21.2	14.2	6.9	0.1
1952	85.7	41.8	28.9	15.0	85.6	50.7	30.3	4.6	22.0	13.5	7.9	0.6
1953	94.2	45.7	34.2	14.3	100.6	58.4	34.0	8.2	29.7	16.2	10.7	1.9
1954	105.1	52.3	41.0	11.7	112.5	66.7	38.2	7.5	30.2	16.4	11.7	1.5
1955	111.5	48.3	46.8	16.3	118.8	67.9	40.8	8.3	30.3	16.2	13.0	0.5
1956	121.5	50.8	52.9	17.8	137.8	76.9	50.4	10.6	31.4	14.6	14.7	1.2
1957	163.9	72.9	54.0	37.1	174.4	99.2	61.8	13.3	34.6	15.5	17.4	0.7
1958	162.8	77.1	69.1	16.6	183.1	102.3	69.4	11.4	37.1	14.6	19.2	2.1
1959	190.3	91.7	78.7	17.7	200.8	111.2	77.9	11.8	38.6	15.1	21.7	1.0
1960	193.9	83.1	86.4	24.5	211.3	115.0	85.6	12.4	44.8	18.0	23.4	1.0
1961	189.9	78.1	94.7	17.1	204.4	91.4	89.9	23.0	40.0	14.2	23.0	1.5
1962	202.8	81.2	96.9	24.5	241.8	109.2	103.5	29.1	48.3	17.1	25.0	5.0
1963	240.5	99.7	107.0	33.9	279.8	108.8	125.4	45.6	53.5	20.3	30.6	7.4
1964	247.7	103.2	114.8	29.7	307.7	115.2	147.5	45.0	61.1	21.6	38.6	10.1

Sources : [a] Annual Statistical Digest, 1964.

[b] Economic Survey Jamaica, 1958-1964 and Bank of Jamaica Annual Report, 1964.

[c] C. V. Callender, op. cit., Table 21 and Quarterly Review of Financial Statistics, March 1965.

TABLE 1.8

INTEREST ON DEPOSITS

Year	JAMAICA[a]					TRINIDAD AND TOBAGO[b]					BRITISH GUIANA[c]				
	Date of Effect	Savings	------ Time -------			Date of Effect	Savings	------ Time --------			Date of Effect	Savings	------ Time ------		
			3 mos	6 mos	12 mos			3 mos	6 mos	12 mos			3 mos	6 mos	12 mo
1946	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1947	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1948	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1949	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1950	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1951	NA	1	NA	½	1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1952	May	2	NA	4/5	1 1/3	NA	NA	NA	NA	NA	March	2	1	1½	2
1953	NA	2	NA	1½	2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1954	June	1½	NA	1 1/5	1 7/10	NA	NA	NA	NA	NA	June	1½	½	1	1½
1955	March	2		1 2/5	1 9/10	NA	NA	NA	NA	NA	March	2	1	1½	2
1956	March	3	1 4/5	2 1/3	2 1/3	Feb.	3	2	2½	3	March	3	2	2½	3
1957	March	3½	2	2½	3	Sept.	3½	2½	3	3½	Oct.	3½	2½	3	3½
1958	July	2	1 7/10	2 1/5	2 7/10	August	2	1	1½	2	July	2½	1½	2	2½
1959	NA	2	1	1¼	2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1960	July	3	1 7/10	2 1/5	2 7/10	Dec.	3	2	2½	3	July	3	3½	4	4½
1961	August	3¼	2 4/5	3 1/3	3 4/5	July	3½	4	4½	5	August	3½	4	4½	5
1962	Dec.	3	4	4½	5	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1963	NA	3	3	3½	4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1964	NA	3	3½	4	4½	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

NA - Not Available

Sources :

[a] N. P. Girvan, op. cit. Table 7. 13.

[b] Economic Survey of Trinidad and Tobago, 1953-1958.

[c] C. Y. Thomas, op. cit., Table 22.

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