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The Rise and Fall of Sterling in Liberia, 1847-1943[1]

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

[1] This research began as part of the British Museum's Money in Africa project, Leverhulme Trust grant 'Money in Africa', number F/00 052/D. I am grateful to Olivier Accominotti, Catherine Schenk, Gareth Austin three anonymous referees and participants in the African Economic History Workshop and the 'Money and Borders' panel at the CAS@50 conference. I would also like to thank the Seeley G. Mudd Manuscript Library at Princeton University for providing me with a copy of Kemmerer's report on Liberia.

In his history of the British colonial currency system in West Africa, Hopkins writes that 'the interests of western nations lay in ensuring that the currencies of countries engaged in international trade were soundly based, readily convertible, and otherwise compatible with the working of the gold standard, so that world commerce could be conducted and expanded with smooth efficiency'.[2] Colonial currency regimes, which required colonies to adopt metropolitan currencies (or colonial currencies issued at fixed rates of exchange with metropolitan currencies), were heavily criticized at independence for promoting metropolitan interests at the expense of development in the colonies.[3] Critics argued that colonial currency boards created a deflationary bias in growing colonial economies by linking volume of local currency to the trade balance rather than domestic demands.[4] In addition, they claimed that the high reserve requirements of currency boards restricted funds available for development.[5] Finally, the fact that currency boards could not engage in independent monetary, credit or banking policy was believed by critics to be, as Schwartz describes it, 'a fatal institutional shortcoming'.[6] Such criticisms provided the primary justification for the abandonment of the currency board system by most former British colonies, which replaced them with national central banks after the transfer of power. However, the functions of the new central banks were often restricted by a general dependence on primary exports and foreign capital to such a degree that Schenk describes them as 'currency boards in all but name'.[7]

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[2] Hopkins, 'Creation of a colonial monetary system', p. 101. See also Herbst, *States and Power*, pp. 211-13; Helleiner, 'Monetary dimensions of colonialism, and; Uche, 'From Currency Board to Central Banking', p. 147.
[3] Schenk, 'Monetary institutions', p. 181. More detail on colonial currency regimes can be found in Abdel-Salam, 'Evolution of African Monetary Systems'; Clauson, 'British colonial currency system'; Helleiner, 'Monetary dimensions of colonialism'.
[4] Treadgold, 'The Philippine currency board arrangement', pp. 57-8. Treadgold finds that such a bias did not exist in the Philippine case.
[5] Hazelwood, 'Economics of colonial monetary arrangements', pp. 312-4.
[6] Schwartz, 'Currency boards', p. 171.
[7] Schenk, 'Monetary institutions'.

In the debate about colonial monetary systems, the experiences of the two African countries that remained politically independent – Liberia and Ethiopia – has been neglected. When added to the larger story of African monetary history, however, the history of these two countries illustrates that African governments were faced with the same constraints as the governments of other peripheral countries in the nineteenth and early twentieth centuries, even in the absence of formal colonial rule. It was these constraints which limited the scope for independent monetary policy. Bordo and Flandreau have argued that countries on the periphery during the gold standard era faced many of the same dilemmas as they do today.[8] Research on the choice of exchange rate regimes by the governments of developing countries in the twenty-first century has stressed that they often have a limited range of options. Weak fiscal institutions leave their currencies prone to high inflation and currency crises.[9] As a result, many countries take steps to limit exchange rate fluctuations, exhibiting a 'fear of floating'.[10] Further, countries with underdeveloped domestic financial markets can raise domestic debt only at higher costs (described in the literature as 'original sin'), often compelling governments to borrow abroad. This leaves them vulnerable to debt crises if local currencies depreciate relative to the currency in which they have borrowed.[11] One potential solution is to peg to anchor currencies, but such pegs can lack credibility, leaving the remaining option the adoption of a 'super hard peg' such as a currency board or full dollarization.[12] However, this requires some loss of monetary independence. The adoption of a foreign currency, in particular, also has political

[8] Bordo and Flandreau, 'Core, Periphery, Exchange Rate Regimes and Globalization', p. 4.
[9] Calvo and Mishkin, 'Mirage of exchange rate regimes', p. 104.
[10] Calvo and Rheinhart, 'Fear of floating'.
[11] Eichengreen, Hausmann, and Panizza, 'Currency mismatches', pp. 122-3; Flandreau and Sussman, 'Old Sins'.
[12] Selgin and White, 'Credible currency'. The example of Argentina illustrates the impact of limited credibility. See Calvo, *Money, Exchange Rates and Output*, ch. 7.

costs. Currencies provide a symbol of national sovereignty, and losing this symbol can be politically damaging even if it provides economic benefits.[13]

This paper examines how one independent African country, Liberia, coped with these choices through the late nineteenth and twentieth centuries. Its experience provides an opportunity to assess the costs and benefits of different exchange rate regimes for African economies in the absence of colonial rule. Founded by the American Colonization Society (ACS) in 1822 for the settlement of freed slaves, Liberia declared its independence in 1847. From that year the Liberian Treasury began to issue one of Africa's first national currencies, the Liberian dollar. The Liberian dollar was initially issued at par with the American dollar, but repeated fiscal crises during the nineteenth century compelled the Treasury to supplement the original coins with a paper currency which quickly depreciated. From as early as the 1870s sterling was substituted, first by private actors and then the Liberian government, leading to a system which would today be called de facto 'dollarization'.[14] Sterling was replaced by the U.S. dollar in 1943, as the devaluation of sterling relative to the dollar raised the cost of servicing Liberia's increasingly dollar-denominated debts. This shift reflected, on a small scale, the rising dominance of the dollar and the expansion of U.S. interests in Africa. By adopting a super-fixed regime, the Liberian government opted for a system similar to that used in colonised territories. The adoption of foreign currencies (first sterling, then the U.S. dollar) represented a sacrifice of political sovereignty which served the interests of Liberian elites who needed access to foreign trade and capital in order to maintain control over their territory.

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

[14] Duffy et al., 'Dollarization traps', pp. 2073-4. This paper follows the somewhat awkward convention of using 'dollarization' to refer to the adoption of any foreign currency. In Liberia's case, this was sterling until 1943, followed by the U.S. dollar. Where dollarization refers to sterling, inverted commas will be used to distinguish it from reference to the dollar.

Liberia has long been neglected in much of the literature on West African economic and financial history.[15] The dearth of research on Liberia is partly due to the fact that records from the nineteenth and early twentieth century are fragmentary. In what remains one of the leading texts on Liberian economic history, Brown observes that 'as official sources and accredited public documents on Liberian history are far from numerous, the research problems of selectivity give way almost wholly to the more difficult task of critically assessing such documents as do exist'.[16] This problem has been compounded since Brown completed his research in the late 1930s by the destruction of large portions of Liberia's national archives during the civil war of the 1990s.[17] As a result, any picture of Liberia's economic and financial development before World War II has to be pieced together from a variety of sources.[18]

This paper draws primarily on the diplomatic correspondence of the British and American governments, which often includes reproductions of original Liberian government documents and newspaper clippings. Published primary sources from Liberia, such as the inaugural addresses of Liberian presidents and their statements to the Liberian legislature, allow a partial glimpse into the domestic politics of the period.[19] Added to these sources are surviving records from the Bank of British West Africa, which operated in Liberia from 1905-31 and served as the state bank for much of this period. Quantitative data on trade, government revenue and expenditure, and exchange rates – unfortunately with large gaps, particularly for the nineteenth century - are drawn primarily from the *Statesman's Yearbook*, supplemented by figures quoted in qualitative records which allow for consistency checks. Evidence from a variety of

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[15] Hopkins notes that the regional focus of his classic *Economic History of West Africa* allows him to incorporate Liberia, but he country's history is not addressed in any great detail.
[16] Brown, *Economic History of Liberia*, p. 323.
[17] Osborne, 'A Note on the Liberian Archives'.
[18] The need to draw on a variety of sources in researching African history is stressed in Ellis, 'Writing histories of contemporary Africa', pp. 12-15.
[19] Guannu, *Inaugural Addresses*; Huberich, *Political and Legislative History*.

reports commissioned by the Liberian government, companies with economic interests in Liberia, and international bodies such as the League of Nations also inform this paper. Finally, the Bank of England archive holds records on Liberia from the 1930s onwards, which are also used here.

Subsequent sections of the paper each focus on a specific exchange rate regime adopted by the Liberian government. The next section (I) focuses on Liberia's early economic and political history, and the issue and then depreciation of the Liberian dollar. Section II examines Liberia's adoption of sterling in the late nineteenth and early twentieth centuries, drawing on the insights of modern research on dollarization. The following section (III) assesses the costs and benefits of the substitution of sterling in Liberia in the inter-war period. In Section IV the transition from sterling to the U.S. dollar provides an empirical illustration of the challenges of changing currencies once de facto dollarization has occurred. Section V concludes by using the case of Liberia in comparison with colonized African countries to suggest avenues for research in assessing the impacts of colonialism for financial development in Africa.

I

When Liberia declared its independence in 1847, it quickly received diplomatic recognition from a number of European states, signing its first treaty with the United Kingdom in 1848.[20] The new country's biggest challenge was economic and fiscal survival. In his inaugural address, Liberia's first president, Joseph Roberts, stated that 'fears are entertained, by some persons abroad, that the citizens of Liberia, when thrown upon their own resources, will probably not sustain the government, and that

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

anarchy and its attendant ruins will be the result of their independence'.[21] Proving these fears wrong was a key aim of Liberia's early economic policies.

Roberts had become Liberia's first non-white administrator in 1841, two years after the American Colonization society had granted powers of self-government to the Commonwealth of Liberia, a union of settler outposts along the coast.[22] Settlers included immigrants from the United States and Barbados, along with a small number of recaptives, or Africans freed from slave ships by the U.S. Navy. This small coastal elite, and their descendants (often referred to as Americo-Liberians), dominated Liberia's economic and political institutions until a coup in 1980 removed them from power.[23] American sociologist Charles Spurgeon Johnson, writing after visiting Liberia as part of a League of Nations delegation in the 1930s, described the position as follows: 'There is something fantastic about the spectacle of 12,000 to 15,000 American Liberians, concentrated in six small towns on the coast, presuming to control an area of 43,000 square miles and an unknown native population of about 1.5 million.'[24] The tenuous position of the Americo-Liberians relative to both the much larger indigenous population as well as the increasingly powerful imperial interests along Liberia's borders shaped the Republic's early policies. It provided both the initial incentive for issuing a national currency, as well as the foundations for its failure.

The issue of the Liberian dollar from 1847 formed a key ingredient in the nationalist project of the Americo-Liberians. Emblazoned with the country's new name, the 'Republic of Liberia', along with images of an oil palm and sailing ships – two key mainstays of Liberia's economy in the mid-nineteenth century – the new Liberian

[21] Guannu, *Inaugural Addresses*, pp. 1-9.
[22] Buell, *Liberia*, pp. 20-1; Fyfe, 'Freed slave colonies', p. 194.
[23] Boley, *Liberia*. Limited extensions of political voice to indigenous groups were made from the 1870s. See Gershoni, *Black Colonialism*, pp. 25-6; Akpan, 'Black colonialism'.
[24] Johnson, *Bitter Canaan*, p. 85.

coins were a demonstration of political sovereignty.[25] The Liberian dollar joined a wide variety of currencies used as a means of exchange in West African trade during the nineteenth century[26] The creation of these coins suggested that the authority they intended to demonstrate was largely illusory – they were minted in England with financial assistance from British philanthropists.[27]

Issuing a national currency was part of a series of efforts by the Liberian government to assert its sovereignty and extend its control over the expanding commerce of the region. The ACS had encouraged the development of a coastal trade for revenue purposes, and many settlers found they had a greater comparative advantage as traders along the coast than as cultivators in the interior.[28] President Roberts is one example. Before migrating from Virginia to Liberia in 1829, he had operated several trading vessels on the James and Appomattox rivers and brought with him both capital and experience, which he used to establish a prosperous trading business in Monrovia.[29] Other Americo-Liberians also amassed considerable individual fortunes through trading and ship-building, which reached a high point in the first decades after 1847 before declining as a result of falling export prices and European competition.[30]

Americo-Liberians were aware that they needed to increase production of raw materials from the interior if trade were to expand. From 1858, the Liberian legislature authorized funds for prize money to be given at the National Fair held in Monrovia. Prizes were awarded for innovations in agricultural production and manufactur-

[25] Examples of Liberian coins are held by the British Museum.
[26] Fry, *Bankers in West Africa*, pp. 4-5; Hopkins, *Economic History of West Africa*, pp. 67-8.
[27] Johnston, *Liberia*, p. 234.
[28] Syfert, 'Liberian Coasting Trade'. See also Fyfe, 'Freed slave colonies', p. 193
[29] Henries, *Life of Joseph Jenkins Roberts*, pp. 8-10; Syfert, 'Liberian Coasting Trade', p. 223.
[30] Syfert, 'Liberian coasting trade', pp. 228-30.

ing.[31] Early commercial policies sought to shield the Liberian economy from foreign influences. The constitution limited landownership to citizens of Liberia, and later legislation restricted foreign traders to a limited number of ports of entry.[32] The British government, in particular, complained that such policies were responsible for hindering trade and development in Liberia.[33] These early protectionist policies contrast sharply with the open, concession-oriented economic policy adopted by the Liberian government from the inter-war period.[34] In making this transition, Liberia bears a strong resemblance to post-independence Peru a few decades earlier.[35]

One of the National Fair prizes was awarded to James Payne, a Methodist minister and future president of Liberia (1868-70 and 1876-8), who had submitted an essay on the 'Principles of Political Economy, as adapted to the Republic of Liberia'.[36] Payne noted the link between fiscal expansion and territorial expansion, writing that 'the extension of the jurisdictihn [sic] of the government and the fair acquisition of territory are much dependent upon the state of economy within'.[37] As the nineteenth century progressed, the Liberian government found itself increasingly defending its claims to the interior from both indigenous groups as well as expanding European colonies.[38] A series of uprisings by indigenous groups continued through the early twentieth century, requiring costly military responses.[39] This was not unique to Liberia, as the costs of conquest represented a large share of early colonial budg-

[31] Brown, *Economic History of Liberia*, p. 26.
[32] Ibid, p. 141.
[33] Wallis, *Report for the Year 1906*.
[34] Clower, *Growth without development*; Miller and Carter, 'A Modern Dual Economy'.
[35] Gootenberg, *Between Silver and Guano*.
[36] For more on Payne's background, see Turner to Fish, 30 May 1875, in *FRUS 1875*, p. 831.
[37] Payne, 'A prize essay on political economy', pp. 14-15. See also Steadman, 'Report on the fiscal system', p. B-1.
[38] Foley, 'British policy in Liberia'; Liebenow, *Liberia*, pp. 22-3; U.S. Senate, *Affairs in Liberia*, pp. 8-10.
[39] Fyfe, 'Freed slave colonies', p. 195.

ets.[40] However, as Johnson observed: 'British and French colonists have found themselves similarly disproportionate, but behind them always has been the inflexible arm of a determined and secure mother country'.[41] The US Navy had helped defend Americo-Liberian settlements during the 1820s and 1830s. However, once the U.S. government – caught between demands for protection from Americo-Liberians and pressure from the British government to clarify its position – abandoned all claims to making Liberia a formal colony in 1843, support for intervention in Liberia waned.[42]

Fiscal data for Liberia in the 19th century are patchy and different sources give conflicting figures. The *Statesman's Yearbook* gives the most systematic series, but figures are often given as estimates or averages over a period of years, and are frequently inconsistent with other contemporary sources. For example, the *Statesman's Yearbook* gives the revenue for 1864 as $100,000, while in his inaugural address in the same year, President Daniel Warner (1864-8) stated that the annual revenue was $45,000. In 1878, a report by the U.S. Legation in Liberia gave a figure of $119,890 for Liberia's revenue for that year while the *Statesman's Yearbook* claims revenue of $85,000. However, anecdotal evidence suggests that a period of near-constant fiscal crisis continued from the 1860s through much of the rest of the century. In his inaugural address, Warner called for a 'vigorous retrenchment of Government expenditure', in light of 'our financial depression'.[43] The Treasury's struggles to meet the demands of expansion were compounded by weak fiscal management. In 1864 a commission appointed to investigate the public finances reported 'much irregularity and looseness in keeping the public accounts'.[44] The late 1870s stand out as a period of particular

[40] Gardner, *Taxing Colonial Africa*, ch. 1.
[41] Johnson, *Bitter Canaan*, p. 85.
[42] Van Sickle, 'Reluctant Imperialists'.
[43] Guannu, *Inaugural Addresses*, pp. 42-54.
[44] Quoted in Boley, *Liberia*, p. 32.

fiscal difficulty, linked partly to a Grebo uprising in 1875.[45] Both the *Statesman's Yearbook* and the U.S. legation reported large deficits in the years following the revolt.[46]

Lacking external support, the Liberian government had few resources with which to fund these deficits, and turned to the printing press. In his 1858 essay, Payne warned about the need for caution on issuing paper currency:

> If the government puts in circulation a paper medium – negotiable only in the country – and promises to redeem it with specie at its treasury department, it certainly should know, at any moment, how much of this currency is in circulation, and should keep itself prepared to redeem it. It should be cautious in circulating it, to have at least a strong probability of a sufficiency of specie to redeem it. Otherwise, some citizen, presuming upon the good faith of the government, may suffer embarrassment. He may have disposed of valuable property for this medium, expecting to engage in some lucrative enterprise, but, to his astonishment, inconvenience an injury, he finds it cannot be redeemed! His faith in the monetary matters of the government wanes at this moment.[47]

By the early 1860s, the Liberian Treasury began to issue of unbacked paper to pay military wages along with other government expenses. Warner's second inaugural address in 1866 referred to 'an immoderate expansion of paper currency notes, which had resulted in a severe monetary distress upon the whole country' prior to 1864.[48] Ironically, one such issue occurred during Payne's presidency, just ten years after he

[45] For a contemporary account of the Grebo uprising, see FRUS 1875, pp. 832-3.
[46] The *Statesman's Yearbook* records revenue of $85,000 and expenditure of $124,000, while the U.S. legation reported revenue of $119,890 and expenditure of $124,167.
[47] Payne, 'A prize essay on political economy', p. 80.
[48] Guannu, *Inaugural Addresses*, pp. 54-64.

wrote his essay.[49] Payne's change of heart suggests that the weakness of Liberia's fiscal institutions left the government with limited options.

The paper issued took a variety of different forms. By the early twentieth century it included what were referred to as 'general government papers', or bills issued directly by the Secretary of the Treasury, used in payment to European merchants who accepted them at below par value but used them to pay customs duties at par. These were used in payment to European merchants, who would accept them in exchange for goods at below par value but return them to the government in payment of customs duties at par. They also included currency bills, described in a British trade report as 'lithographed papers, issued in the form of bank notes and drawn upon the treasury'. Municipal governments and county superintendents also issued their own bills, which could be used to pay customs duties.[50] The fact that such bills were widely used to pay customs duties and as instruments of public spending (and often at different rates) helps explain the difficulty in finding consistent totals for revenue and expenditure. Payne, in his inaugural address in 1868, confessed that his government could not come to an accurate figure of the amount of Liberian currency and other forms of government paper in the hands of the public.[51]

By 1871, the state of the currency remained a source of concern to the Liberian government. At his inauguration, Payne's successor, Edward Roye, proclaimed that 'we must have a sound par value currency', and proposed one of a series of measures to 'relieve the depressed position of our currency'. Alongside the depreciated currency was a growing burden of domestic debt.[52] One such measure was a turn to the international capital market. In that year the Liberian government raised its first

[49] U.S. Legation, Monrovia, to Department of State, 30 May 1875, in *FRUS 1875* vol II, p. 831.
[50] Wallis, *Report for the Year 1906*, p. 15; Corporation of Foreign Bondholders, *Annual Report 1903-4*, p. 253.
[51] Guannu, *Inaugural Addresses*, pp. 65-75.
[52] Ibid, pp. 76-85.

loan on the London market. The loan of £100,000 was to be allocated as follows: £25,000 was to be deposited in the Treasury as a basis for the issue of paper currency, thus curbing the depreciation of the Liberian dollar, a further £25,000 was to be used to pay off the floating internal debt, and the remaining £50,000 was to be held as an emergency fund.[53] The loan was guaranteed with future customs receipts and the revenue from a proposed excise tax. The loan was issued at a discount of 30 per cent, and as a result the Liberian government received only £70,000 in cash for the £100,000 in debt. Interest at 7 per cent was payable three years in advance, which reduced the amount received in cash still further. By 1874, the Liberian government had stopped paying interest on the loan. In 1895, the principal and arrears amounted to £254,000.[54]

Bordo and Flandreau argue that peripheral countries in the gold standard era had to choose between super hard fixed exchange rates and restricting foreign borrowing because devaluation in local currency led to debt crises.[55] In Liberia's case, the collection of customs revenue in depreciated government paper made servicing the loan difficult. Complicating the situation further was a political crisis surrounding the loan. President Roye (1870-71) agreed to the loan over the protests of many of the Liberian elite, who found the terms of the loan disadvantageous. Adding insult to injury, he issued a proclamation in October 1871 extending his term of office from two years to four. Roye was deposed and imprisoned shortly afterwards in Liberia's first coup. Reports of what happened afterwards vary, but several contemporary sources suggest that Roye escaped from prison in possession of a substantial share of the loan proceeds, with which he drowned while trying to flee the country.[56]

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[53] Johnson, *Bitter Canaan*, p. 98.
[54] Corporation of Foreign Bondholders, *Annual Report 1895*, pp. 197-8; Johnston, *Liberia*, pp. 259-63.
[55] Bordo and Flandreau, 'Core, Periphery, Exchange Rate Regimes and Globalization', p. 6.
[56] Johnston, *Liberia*, pp. 261-3.

What proportion of the 1871 loan reached the Liberian Treasury remains unknown, but it was unlikely to have been more than a third. As a result, the Liberian dollar continued to decline in value through the remainder of the century. Data on exchange rates are fragmentary. In 1876, the *Statesman's Yearbook* reported revenue and expenditure in 'paper currency' at an exchange of $7 to the pound (while the U.S. dollar was worth just over $5 to the pound). In 1880, the government issued a new instrument - ten-year domestic bonds at six per cent – in exchange for the paper currency still in circulation. Three years later, a law was passed providing for the removal from circulation of half of the paper currency paid into the Treasury. It also instructed the Treasury to hold a tenth of the gold coin it received in a fund to meet foreign payments. In 1884, a further law mandated that domestic creditors should be paid two-thirds in gold and one-third in paper – Brown estimates that this approximated to a 25 per cent reduction in the nominal value of their claims. These efforts may have had some effect – the 1884 the *Statesman's Yearbook* estimates an exchange rate of $5 in Liberian paper money to the pound sterling. However, they were undermined by a further issue of paper money in 1893 to meet the costs of a renewed revolt by the Grebo, as a result of which, according to Brown, the value of the paper currency fell 75 per cent below par.[57]

II

The declining value of the Liberian dollar left many people in Liberia looking for an alternative. This was true not only of Americo-Liberian elites like Roberts who were involved in trade, but also of indigenous Africans employed in the commercial sector.

[57] Brown, *Economic History of Liberia*, p. 335.

McKinnon notes that in small areas with currencies that are not pegged to currencies of larger areas, the liquidity value of the small area's currency will be limited and 'domestic nationals will attempt to accumulate foreign bank balances'.[58] Americo-Liberians involved in trade would have wanted to receive payment for their exports in a currency which could consistently be used to purchase imported goods, either for trade in the interior or consumption. Further, a large number of indigenous Liberians, particularly the Kru, were employed in the shipping trades all along the West African coast. Working as sailors, boat-builders, warehousemen, interpreters and etc., they would accumulate their wages over a period of several years and then use them to purchase European goods with which they would return home, acquire land and marry.[59]

As the Liberian dollar declined in value through the late nineteenth century, increasing quantities of British sterling currency were flowing into West Africa due to the expansion of trade and the establishment of British colonies in the region. The principal increase was in token silver coins, which had been introduced in Britain's colonial territories from 1825 and constituted the primary medium of exchange in the overseas trade of British West Africa despite not being backed by gold.[60] Figure 1 shows imports of British token silver coin into West Africa through the late nineteenth century. In 1906, Wallis reported that while Liberian dollars and cents were the 'official coinage of the Republic' there was 'greater demand for pounds, shillings and pence, which is legal tender anywhere among the Americo-Liberian settlements'.[61]

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[58] McKinnon, 'Optimum currency areas', p. 722.
[59] Foreign Office to Colonial Office, 24 January 1914, in TNA T1/11612. For more on the Kru, see Allen, 'Liberia and the Atlantic World', p. 24 and Brooks, *The Kru Mariner*.
[60] Fry, Bankers in West Africa, pp. 7-8; West African Currency Committee, *Minutes of Evidence*, p. 1.
[61] Wallis, *Report for the Year 1906*, p. 15.

Fig. 1 Imports of British Silver Coin into West Africa

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

As Wallis was writing, the Liberian government's return to the capital market had meant that the Liberian state had begun collecting its revenues in sterling. Liberia's default on the 1871 loan had left the government dependent on domestic borrowing – largely in the form of cash advances from merchants at interest rates on the order of 25 to 30 per cent.[62] In 1899, after more than two decades in default, the Liberian government had negotiated a new agreement with its creditors from 1871, reducing the interest rate to 3 per cent for three years, rising ½ per cent every three years to a maximum of 5 per cent.[63] This allowed the Liberian government to raise another loan of £100,000 at six per cent interest. Like the 1871 loan, the purpose of the 1906 loan was to repay domestic debt, stabilize Liberia's financial position, and fund an expansion of public works.[64] British officials were placed in charge of customs collections as security for a second loan raised in 1906, also denominated in sterling.[65] Wallis noted a substantial increase in customs collections following the requirement that collections be made in gold, and further observed that 'previous returns showed the value principally in paper currency as against gold under the new arrangement'.[66]

Like the 1871 loan, however, the 1906 loan failed to deliver on its promised purposes. The loan had been arranged by the Liberian Development Company (LDC) and British explorer and former colonial administrator Harry Johnston. The LDC took

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[62] Johnson, *Bitter Canaan*, p. 102.
[63] For full text of renegotiated agreement, see Corporation of Foreign Bondholders, *Annual Report 1898-9*, pp. 238-47.
[64] Brown, *Economic History of Liberia*, p. 164.
[65] U.S. Senate, *Affairs in Liberia*, p. 20.
[66] Wallis, *Report for the Year 1906*, p. 15.

on the balance of the loan after domestic creditors had been repaid, and in return appointed two British administrators to manage customs collection and pledged investments in road-building. The LDC was to retain a share of customs revenue and the profits from road-building in repayment of the loan. Unsatisfied with the LDC's progress in roadbuilding – only 15 miles of road had been constructed – the Liberian government took over the loan in 1908.[67]

Liberia's fiscal and economic problems continued following the collapse of the 1906 arrangement. Without resources to invest in infrastructure, Liberia's trade had not expanded at the same rate as that of its neighbours in the early twentieth century. For example, in the 1880s per capita exports in both Liberia and Sierra Leone were around £0.17, but by 1913 Liberia's per capita exports had experienced only a marginal increase (to £0.25), while Sierra Leone's had increased to £0.79 following the construction of the railway.[68] In search of assistance from sources outside Britain, the Liberian government sent a commission to the United States. It arrived in Washington DC in 1909, at the height of enthusiasm for 'dollar diplomacy' in the U.S. During the trip the Liberian commission was told about the great success of the 'fiscal protectorate' established in the Dominican Republic in 1905, in which private financiers refinanced the Republic's debt, in exchange for which U.S. officials were placed in charge of customs collection and a share of customs revenue was devoted to the debt service.[69] A return commission was appointed by the U.S. government in 1909 to investigate Liberia's finances.[70] In 1910 the commission's report noted that in addition to its foreign debt of just over $900,000 (£187,500), Liberia had accumulated

[67] Brown, *Economic History of Liberia*, p. 164.
[68] Figures calculated from *Statesman's Yearbook* and Board of Trade, *Statistical Abstract*. Liberia and Sierra Leone both originated as colonies for freed slaves and shared similar geographies. For more, see Clapham, *Liberia and Sierra Leone*.
[69] Rosenberg, *Financial Missionaries*, pp. 41-7
[70] Boley, *Liberia*, pp. 36-7.

domestic debt of $352,205 (£73,376), only a little less than a year's revenue.[71] It recommended a controlled loan based on the Dominican model be made to Liberia.[72] The recommendation of the commission was largely put into place in a loan of $1,700,000 issued in 1912, known as the refunding loan. Both the British and French governments protested at the prospect of losing influence in West Africa, so the loan was raised internationally but managed by the National City Bank of New York. The international character of the 1912 loan was similar to a loan proposed for China.[73] Unlike the previous two loans, the 1912 loan was denominated in U.S. dollars.

As a condition of the loan, a Customs Receivership comprised of representatives from the UK, France and Germany under the leadership of a Receiver of Customs appointed by the U.S. government were placed in charge of collecting and managing revenue earmarked for loan service payments, referred to as the assigned revenue. This included customs revenue (which remained the most important source of tax revenue), revenue from rubber export tax, and hut tax revenue.[74] Revenue from other sources remained under the control of the Liberian government.[75] As soon as it was established, the Receivership issued a circular stating that 'all customs dues upon imports and exports are payable solely in current gold, and no document or evidence of indebtedness of any kind whatsoever will be received in lieu thereof'.[76] In practice, the medium of payment was principally British coin.[77] In 1919 it was reported to the Foreign Office that 'although the Budget of the Republic is framed in Dollars the cur-

[71] U.S. Senate, *Affairs in Liberia*, p. 22.
[72] Rosenberg, *Financial Missionaries*, pp. 69-70.
[73] Ibid, pp. 75-6.
[74] Cooper to Harcourt, 26 January 1915, in TNA T1/12212.
[75] BBWA to Foreign Office, 12 February 1918, in TNA T1/12212.
[76] Administrative Circular No. 1 of the Customs Receivership, 26 November 1912, in *FRUS 1912*, p. 694.
[77] Couper to Langley, 22 January 1914, in TNA T1/11612.

rency in use is almost entirely British Gold and Silver Coin, which has displaced Liberian coin, the minting of which ceased some years ago'.[78]

At the same time, the entry of the Bank of British West Africa (BBWA) into Liberia brought it into an effective currency union with the British West African territories surrounding it. The BBWA had originated as a department of the Elder Dempster shipping company and had taken over the business of the African Banking Corporation. Like other British banks operating in the Empire, it found opportunities in providing banking services to colonial governments. It became the government banker to the four British colonial administrations in West Africa and from 1894 enjoyed the sole right to import British token silver coin into West Africa from the Royal Mint free of charges for packing, freight and insurance.[79] It also expanded into a number of non-British and sovereign territories in Africa, including Morocco and German Togo, as well as Liberia. The BBWA's first extension into Liberia was in 1905, when it hired W.D. Woodin & Co. as its agents at Monrovia. Five years later, the bank opened its first Liberian branch in Monrovia.[80] After the establishment of the West African Currency Board in 1912, the Bank acted as its agent in British territories in West Africa. Agency agreements were signed with trading companies, such as the Oost Afrikaansche Compagnie in Grand Bassa (a major port) for operations outside the capital city, Monrovia.[81]

By 1916 the BBWA had been appointed the state bank of Liberia.[82] It was not unprecedented for a British bank to act as a state bank for a sovereign state – similar

[78] BBWA to Foreign Office, 3 November 1919, in TNA T160/887.
[79] Fry, *Bankers in West Africa*, pp. 23-6; Jones, *British Multinational Banking*, p. 114; Uche, 'Foreign banks', p. 673.
[80] 'Chronology of events'; 'Branches', in LMA CLC/B/207/MS28816/001.
[81] For full text of Grand Bassa agency agreement, see LMA CLC/B/207/MS28536.
[82] Memorandum of Agreement between the Government of the Republic of Liberia and the bank of British West Africa, 4 February 1916, in TNA T1/12212.

arrangements were in place in China and Iran.[83] From 1918 all government salaries were paid through the bank in an effort to reduce losses of public money through theft.[84] The 1916 agreement stated that while the Bank would accept Liberian silver and copper coin as part of Government revenues, the government would be required to 'take back the whole or any portion desired by the bank when drawing from its account'.[85] The BBWA was reluctant to accumulate balances of Liberian currency. By the outbreak of World War I there were few uses for Liberian currency, which could not be used for the payment of customs tariffs or other assigned revenues.

The refunding loan allowed Liberia to repay its earlier debts, but financial mismanagement continued to create fiscal difficulties.[86] The situation worsened considerably with the outbreak of World War I. When Liberia joined the allied cause and severed its relations with Germany, which had been a major trading partner, its finances suffered greatly.[87] Assigned revenues decreased from $486,639 (£100,000) in 1913 to $185,715 (£39,000) in 1916.[88] In 1915 an official with the American legation in Monrovia noted that 'the Government is undoubtedly very hard pressed. How far it can drag along, in its present manner of going, drawing behind it a burden that increases rapidly as the weeks go by, is an indeterminate question'.[89] By May 1916 the Liberian government had given notice to the National City Bank of New York that it proposed to suspend payments on the interest and sinking fund for the 1912 loan.[90] The BBWA was asked to lend the Liberian government $9,000 on the first day of each month. All government revenue was to be collected by the Bank in repayment,

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83 Jones, *British Multinational Banking*, p. 112.
84 BBWA to Foreign Office, 4 September 1918, in TNA T1/12212.
85 Memorandum of Agreement, 4 February 1916, in TNA T 1/12212.
86 Receiver of Customs to National City Bank of New York, 17 September 1914, in TNA T 1/12212.
87 Sperling (Foreign Office) to McFadyean (Treasury), 26 January 1919, in TNA 1/12212; Liebenow, *Liberia*, p. 17.
88 BBWA to Foreign Office, 12 February 1918, in TNA T 1/12212.
89 U.S. legation, Monrovia, to Secretary of State, 11 May 1915, *FRUS* 1915, p. 639.
90 U.S. legation, Monrovia, to Secretary of State, 13 June 1916, in *FRUS* 1916, p. 459.

but given the depressed state of Liberia's revenue the Bank anticipated a monthly deficit of $5,000.[91] The Bank, anxious about the potentially unlimited liability which could be generated by this arrangement, asked the British government to guarantee the loan. When the British government refused, a cap of $100,000 (or £20,000) was imposed on the debt.[92] The BBWA was not the only British bank to engage in such lending – in Greece, the government looked to the Ionian bank to 'assist the perennially chaotic state of Greece's finances'.[93] By 1918, it was reported to the British Foreign Office that in addition to its external liabilities of $1,458,000 (£300,000), Liberia had accumulated internal debts of nearly $400,000 (£83,000), part of which had been accrued through the partial (50 per cent) payment of government salaries.[94]

Liberia fit many of the characteristics which are today thought likely to lead to dollarization.[95] The Liberian dollar's history of depreciation relative to gold standard currencies combined with dependence on British imports provided actors – including not only the Americo-Liberian elite but also indigenous Liberians - with a strong incentive to deal in sterling rather than local currency. The state had similar incentives, mandating the payment of taxes in sterling so that it could service its debts, denominated in foreign currency. The next section will examine the costs and benefits to Liberia of adopting sterling, focusing particularly on the changes which led to its eventual adoption of the U.S dollar in 1943.

III

[91] Couper to Langley, 13 December 1916, in TNA T1/12212.
[92] BBWA to Foreign Office, 29 October 1917, in TNA T1/12212. See also Memorandum of Agreement between the Government of the Republic of Liberia and the BBWA, 21 February 1917, in *FRUS 1917*, p. 889.
[93] Jones, *British Multinational Banking*, p. 106.
[94] BBWA to Foreign Office, 12 February 1918, in TNA T 1/12212.
[95] Alesina and Barro, 'Dollarization', p. 384.

It is difficult to measure the benefit to Liberia relative to the costs of losing its monetary sovereignty. In their study of Mexico in the late twentieth century, Cooley and Quadrini conclude that 'the cost of losing the ability to react to shocks is much smaller than the potential losses or gains deriving from the reduction of the long-term inflation'.[96] The Liberian Treasury's difficulties in managing its currency suggests that the same would be true there. However, 'dollarization' also came with costs.

The first was that Liberia's supply of circulating currency depended on the continued export of silver coin to West Africa, and it had no control over changes made in Britain to the monetary arrangements of British West Africa. By 1910, the scale of such exports had become a matter of some concern for the British government. While it was the dominant circulating medium in West Africa, silver coin was a token currency in Britain, and not backed by gold. Its value was managed by a careful judgement of supply and demand, which could be undermined if an economic crisis in West Africa led to substantial quantities of British silver flowing back to Britain.[97] To avoid this possibility, a separate West African currency was introduced in 1912, managed by the newly established West African Currency Board (WACB). The WACB was allowed to repatriate substantial quantities of British coinage, as it increased the quantity of West African issues. Figure 2 shows the quantity of repatriated token silver alongside WACB issues.

Fig. 2 WACB Currency Issues and Repatriated British Silver Coin

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

[96] Cooley and Quadrini, 'Costs of losing monetary independence', p. 372.
[97] Armitage-Smith to Blacket, 27 September 1919, in TNA T160/887.

The introduction of the new WACB currency prompted efforts in Liberia to demonetize foreign currency and return to the Liberian dollar. A bill imposing heavy penalties on anyone caught importing foreign currency, and authorising a new issue of Liberian coinage, was put before the Liberian legislature and passed in 1914. The bill was originally intended to target only the British West African coinage, but the final version included all foreign currency.[98]

Objections to British West African currency were two-pronged. Firstly, there was limited confidence in the value of WACB currencies relative to sterling, not only in Liberia but amongst trading firms in the region.[99] This concern prompted Liberian president Daniel Howard (1912-20), to ask the British Consul-General 'what good a pocketful of this new money would be to anybody landing in Liverpool or London'. Further, the President was concerned about rumours that banks would only receive British West African currency at a substantial discount. At the President's request, the consul produced a letter from the manager of the BBWA's Monrovia branch, stating that the currency could be changed into British sterling in London or Liverpool, and that the Bank would receive it at par value.[100] Secondly, they perceived a threat to Liberian sovereignty in the new currency. Howard told the manager of the BBWA's Monrovia branch that 'the people did not want any coins bearing the description "British West Africa" in Liberia. They do not mind the imperial coins so much, but they strongly objected to the Colonial coins, and fancy that an attempt is being made to gradually "British-ise" Liberia'.[101]

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[98] British Consul-General, Monrovia, to Foreign Office, 9 February 1914, in TNA T1/11612.
[99] Herbst, *States and Power*, pp. 206-7. See also Helleiner, *Making of National Money*, pp. 184-5.
[100] British Consul-General, Monrovia, to Foreign Office, 9 February 1914, in TNA T1/11612.
[101] Monrovia Branch to Head Office, 19 January 1914, in TNA T1/11612.

Ultimately, the bill was suspended under British and American pressure.[102] The objections of the British government were based on the fact that the refusal of Liberians to accept the new WACB currency might interfere with its acceptance in British West Africa, and that the passage of the bill might hinder British trading interests in the Republic.[103] By the end of the War, WACB coins were accepted in payment of customs duties, alongside imperial silver.[104]

How far the introduction of WACB currency affected Africans in Liberia's interior (and the extent to which indigenous people they raised any objection) remains uncertain. Export industries were slow to develop and surviving records indicate there were limits to the degree of monetization, particularly in rural areas. The 1916 agreement with the BBWA also included instructions on how to account for the payment of taxes in goods rather than cash.[105] However, by 1937 the U.S. Financial adviser to the Liberian government reported that WACB coins were used alongside 'native "iron" money'.[106]

The level of monetization in the interior began to increase with the establishment of the Firestone Rubber Plantation, which not only employed a large labour force of 30,000 by the 1940s, but also encouraged the independent production of rubber by African smallholders.[107] Firestone's expansion into rubber production paralleled that of other firms. The British embargo of rubber exports during World War I had prompted American tyre manufacturers to seek alternative supplies of rubber. Further impetus was provided by the Stevenson Plan of 1922, which introduced ex-

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[102] British Embassy, Washington D.C to Foreign Office, 12 January 1914; Couper to Langley, 22 January 1914, and; Board of Trade to Foreign Office [DATE], 1914, in TNA/11612.
[103] Treasury to Foreign Office, 31 January 1941, in TNA T1/11612.
[104] BBWA to Foreign Office, 3 November 1919, in TNA T160/887.
[105] Memorandum of agreement, 4 Feb 1916 in TNA/12212.
[106] Extract of report enclosed in letter from the Colonial Office to the Treasury, 27 January 1937, in TNA T160/887.
[107] Buell, *Liberia*, p. 49.

port quotas in Malaya and Ceylon.[108] The Stevenson plan compounded fears in the U.S. following World War I that Britain and other imperial powers would adopt policies which would restrict U.S. access to raw materials from their colonial territories.[109] Harvey Firestone saw the Stevenson Act as ‘a threat to the industry’s supply of rubber’, and took steps to secure alternative supplies.[110] In 1925 the Liberian government concluded an agreement with Firestone which gave the company a 99-year lease on an experimental rubber plantation near Monrovia, a 99-year lease on a million acres to be used for rubber production, and the right to improve the harbour facilities of Monrovia.[111] Rubber rapidly became Liberia’s most important export. Figure 3 compares Liberia’s principal exports from 1938 with 1908.

Fig. 3 Principal Exports from Liberia, 1908 and 1938

Sources: Parks, *Report on the Trade and Commerce of Liberia 1909*; Report on the Financial Operations of the Republic of Liberia 1939, in TNA FO 271/24444.

The Firestone concession was linked to an agreement with the Finance Corporation of America, a subsidiary of Firestone for a new loan of U.S. $5,000,000 to be managed by the National City Bank of New York.[112] After the end of the war, the Liberian government had sought a new loan from the U.S. government along the lines of the 1912 loan, but the plan was voted down by the U.S. House of Representatives amidst new opposition to the dollar diplomacy loans of the pre-war period. The U.S.

[108] French, ‘Emergence of US multinational enterprise’, pp. 66-7.
[109] Bernhardt, *The Tariff Commission*, p. 34.
[110] Chalk, ‘Anatomy of an Investment’, pp. 14-16.
[111] Chief of the Division of Western European Affairs to the Secretary of State, 12 January 1936, in *FRUS 1926*, p. 5-3. Firestone’s planned improvement of the harbour was eventually abandoned on cost grounds – see Boley, *Liberia*, p. 41.
[112] The full text of the loan agreement is published as Appendix 6 of Buell, *Liberia*.

government therefore looked to private interests to carry on the dollar diplomacy mission – in Liberia's case, Firestone.[113]

The Firestone concession was also linked to a major change in Liberia's banking sector. The BBWA, which had functioned as the state bank of Liberia since 1916, closed its Liberian branches in September 1930.[114] The Bank's stated reason for closing was that the limited sanitation facilities in Monrovia presented a danger to the bank's staff.[115] However, officials in the British government suspected that the real reason was limited profitability.[116] The closure of the Liberia branch was one of a number of branch closures by the bank during the 1930s – from a pre-war peak of 55 branches in 1929, the number of branches had decreased to 39 by 1941.[117]

A Firestone subsidiary – the United States Trading Company (Banking Department) - stepped into the breach left in the management of state finances. The new bank was an ad-hoc arrangement, designed to make sure the Liberian government did not have to go without banking services after the departure of the BBWA. The U.S. Trading Company already operated in Liberia, selling provisions to Firestone staff. Its banking branch was intended to serve primarily as a depository for government revenue, in order to safeguard payments servicing the Firestone loan. Its sole branch was in Monrovia, in the same building that had been occupied by the BBWA.[118] In 1935, the USTC (Banking Department) became the Bank of Monrovia, but remained a Firestone subsidiary. In his study of the expansion of American banking, Phelps notes that one source of such expansion involved commercial firms not actually clas-

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[113] Rosenberg, *Financial Missionaries*, p. 120.
[114] Foreign Office memorandum, 14 June 1930, in TNA CO 267/630/8.
[115] BBWA Monrovia Branch to Head Office, 20 June 1930, in LMA CLC/B/207/MS28698; BBWA to Foreign Office, 22 January 1930, in TNA CO 267/630/8.
[116] Foreign Office memorandum, 14 June 1930, in TNA CO 267/630/8.
[117] 'Number of branches open at 31st March', in LMA CLC/B/207/MS28816/001.
[118] Department of Overseas Trade (Board of Trade) to Bank of England, 36 November 1930, 19 December 1930 and 7 May 1931 in Bank of England OV67/1.

sified as banks which nevertheless provided banking services abroad.[119] The Bank of Monrovia fit this category until 1955, when it was acquired by the First National City Bank of New York, which had opened branches through Latin America and Europe following the passage of the Federal Reserve Act of 1914.[120] The Bank of Monrovia served as the fiscal depository to the Liberian government until the establishment of the National Bank of Liberia in 1974.[121]

The shift from British to American dominance did not present problems so long as the pound-dollar exchange rate remained stable. When the rate changed, however, it raised the cost of servicing Liberia's debt and exacerbated the country's fiscal difficulties. After World War I, for example, sterling was received in Liberia at a rate of $4.80, but remittances to the U.S. in payment of interest on the 1912 refunding loan were received at the London/New York rate of around $4.15.[122] The devaluation of the early 1930s (see Figure 4) also made it difficult for Liberia to service its debts and affected the purchasing power of Liberians. The annual message of President Edwin Barclay (1930-44) to the Legislature for 1932 reported that 'the difference in the rate at which we receive sterling for government taxes and other income and the rate which the Government is credited when it has to pay its foreign claims represents a loss of a little over 26 per cent'.[123] Liberian revenues were already suffering owing to a falling off of trade during the Depression. An uprising among the Kru also required rapid increases in public spending. In 1932 the budget deficit amounted to nearly half of total revenue (Figure 5). A surplus was achieved in 1933, but only be-

[119] Phelps, *Foreign Expansion of American Banks*, p. 11.
[120] Ibid, pp. 142-7.
[121] IMF, *Surveys*, pp. 262-3; Maynard, 'The economic irrelevance of monetary independence', p. 113.
[122] BBWA to Foreign Office, 3 November 1919, in TNA T160/887.
[123] *Annual Message of the President 1932*, pp. 31-2.

cause the Liberian government suspended payments on the Firestone loan in December 1932.[124]

Fig. 4 Sterling-dollar exchange rate, 1920-38 (1929=100, annual averages)

Source: Dimsdale, 'British monetary policy', tables 3 and 9.

Fig. 5 Deficit/Surplus as a Percentage of Total Revenue, 1928-38

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

The outbreak of World War II resulted in further difficulties relating to the devaluation of the pound. In 1939 Firestone commissioned Edwin Kemmerer, Princeton economist and 'money doctor', to write a plan for monetary reform in Liberia. As in the 1930s, the declining dollar value of sterling made it increasingly difficult for the Liberian government to satisfy its obligations. The burden of both the salaries of U.S. officials and external debt payments was increased by the decline of sterling from $4.80 to approximately $4.00.[125] This change did not merely affect state finances. With the establishment of the Firestone plantation as well as the outbreak of war, Liberian trade had become increasingly oriented towards the U.S., at the expense of Britain. Figure 6 below shows the changing pattern of Liberian trade. The declining dollar value of sterling also increased the cost of U.S. imports for the private sector.

Fig. 6 Foreign Trade by Country, 1937-9

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

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[124] Mitchell to Secretary of State, *FRUS 1932*, pp. 790-1.
[125] Kemmerer, 'Plan for Monetary Reform', pp. 1-2.

After the turmoil of the early 1930s there was increasing pressure for Liberia to move from British sterling to the U.S. dollar. Local circumstances provide much of the explanation for this, but contemporaries also saw it as a symptom of the global rise of the dollar at the expense of sterling.[126] In December 1942 the Federal Reserve Bank of New York Press Summary noted that Liberia's currency change 'is believed to foreshadow the emergence of the dollar as an international currency… Dollar exchange is steadily replacing the pound sterling as an international currency exchange'.[127]

Despite pressure coming from several sources, the implementation of the change was slow. In 1935 a law was passed establishing a gold dollar equivalent to the U.S. dollar as Liberia's monetary unit, and empowering the Treasury to demonetize British silver.[128] In practice, the law did not take effect until eight years later, when sterling was replaced by the dollar in 1943, and shipments of British sterling were made as late as 1942, when £20,000 in British silver coin was shipped to Monrovia.[129] The next section will examine the challenges of changing currency in a dollarized economy.

IV

Dollarization is effective in limiting expectations of inflation precisely because it is difficult to reverse. Eichengreen describes dollarization as 'not just locking the door to the central bank (the currency board solution) but effectively throwing away the

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[126] For background, see Eichengreen, *Globalizing Capital* and Schenk, *Decline of Sterling*.
[127] Extract from the Federal Reserve Bank of New York Press Summary, 14 December 1942, in Bank of England OV135/1.
[128] Kemmerer, 'Plan for Monetary Reform', p. 4
[129] Treasury to Bank of England, 31 January 1942, in TNA MINT 20/1590.

key'.[130] The transitional costs of switching from one currency to another are one reason for the additional credibility of dollarization as compared with a fixed exchange rate.[131] In Liberia's case, the cost of physically replacing the circulating currency was a major obstacle to moving from sterling to the U.S. dollar. According to U.S. officials in Liberia, these costs were estimated to be $100,000-$150,000, 'which Liberia does not have available for this purpose'.[132] Further, the cooperation of the British Treasury was needed to dispose of large quantities of token silver coin, as it was only legal tender up to £2.

In the end, the needs of the war effort prevailed over both obstacles. From 1942 an extensive U.S. military establishment was based in Liberia to protect rubber supplies.[133] A letter sent from the State Department in Washington D.C. to the U.S. legation in Liberia noted that 'the appearance of American forces in Liberia will immediately present an important commissary and paymaster problem. The War Department has expressed a desire to introduce, if possible, American currency for local expenditures and salary payments'.[134] This was the option preferred by the Bank of Monrovia, which was trying to limit its exchange risk.[135]

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

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[130] Eichengreen, 'Wheen to dollarize', p. 3. See also Fischer, 'Seigniorage and the case for a national money', p. 300.
[131] Goodhart, 'Political Economy of Monetary Union', p. 485.
[132] U.S. Charge d'Affaires, Monrovia, to Secretary of State, 8 March 1942, in FRUS 1942, p. 431. For more on the costs of physically changing currency, see Goodhart, 'Political Economy of Monetary Union', pp. 485-6.
[133] Buell, *Liberia*, pp. 3-4. The full text of the Defense Areas agreement of March 1942 is published in Buell as Appendix 2.
[134] Acting Secretary of State to the Charge d'Affaires, Monrovia, 4 March 1942, in FRUS 1942, p. 430.
[135] British Supply Council in North America to Treasury, 10 September 1942, in TNA MINT 20/1590.

currency within the separating region or state'.[136] The information costs of the change would have been mitigated by the fluctuations in the pound-dollar exchange rate, which had complicated past efforts to plan future expenditure. A League of Nations report from 1932 noted that 'it was clear that in view of the changing currencies and the varying economic conditions it was impossible to fix a budget here and now.'[137] The devaluation of the late 1930s is likely to have produced similar confusion. However, many private contracts were denominated in sterling. The League of Nations recorded a range of pawnship contracts, in which people were used as collateral for debt, the vast majority of which were denominated in sterling. For example, one Jadgua, a headman from Kanga, living near Royesville, fined £18 0s 2d for road delinquencies, pawned his wife and child for £7 to one Kankawah.[138] This suggests that not only credit contracts but also state fines were denominated in sterling, and would need to be changed on the switch to the dollar.

After negotiations with the British government, token silver coin and WACB coinage were collected in Liberia and shipped to the West Indies (where there was a shortage of British currency) and Sierra Leone, respectively.[139] A public notice of 7 December 1942 by the President Barclay announced that it was 'the intention of the Government to withdraw British coins and to adopt U.S currency as a circulating medium'. British coins would be redeemed in U.S. dollars at the rate of $4.00 to the pound. They could also be used to pay 'taxes and other public obligations' up to 30 June 1943.[140]

The question of Liberia's monetary independence continued to be discussed in subsequent decades. While some viewed the use of the U.S. dollar as necessary to at-

[136] Goodhart, 'Political Economy of Monetary Union', p. 485.
[137] League of Nations, *Final Report*, in U.S. Department of State, *Liberia*, p. 5.
[138] Christy, *Report into the existence of slavery*, p. 15.
[139] Royal Mint to Treasury, 1 March 1943, in TNA MINT 20/1590.
[140] Public notice by Edwin Barclay, 7 December 1942, in TNA MINT 20/1590.

tract investment under the open door policies pursued after the war, others saw it as unnecessarily exposing Liberia to volatility in the global economy and subjecting it to weaknesses in U.S. monetary policy.[141] Dollarization has proved difficult to reverse. An effort to re-introduce higher denomination Liberian currency in the form of $5 coins by the government of Samuel Doe following the 1980 coup initially drove U.S dollar notes out of circulation, as people hoarded the higher-value currency. 'Doe dollars' were initially issued at par with the U.S. dollars, but were eventually deflated to half or less of their original value.[142] Even after the establishment of the Central Bank of Liberia in 1999, the the ratio of foreign currency deposits to local currency deposits has remained high.[143] The Central Bank of Liberia, which was established in 1999, reported that 73.5 per cent of broad money (M2) was comprised of US$ in the first quarter of 2013, indicating 'the highly dollarized nature of the economy'.[144]

V

Liberia's adoption of a super-fixed regime in the early twentieth century suggests that the story of African monetary history during the gold standard era is more complicated than one of colonial conquest. Super-fixed regimes served the interests not only of imperial powers but also of African elites who relied on access to global markets for both goods and capital to sustain their rule.[145] In Liberia's case, both foreign trade and foreign borrowing were essential to the maintenance of the Americo-Liberian settler state, and both were facilitated by the system of de facto dollarization

[141] Liebenow, *Liberia*, pp. 244-5; Miller and Carter, 'Modern dual economy', p. 114.
[142] Liebenow, *Liberia*, p. 307.
[143] Erasmus et al., 'Dedollarization in Liberia', Appendix 1.
[144] Central Bank of Liberia, *Financial and Economic Bulletin*, p. 24.
[145] Cooper argues that this was the case in during both the colonial and post-independence periods. See Cooper, *Africa since 1940*, ch. 7.

adopted from 1906. As Bordo and Flandreau's analysis suggests, parallels with sovereign countries in Asia and Latin America are easy to find. Meeting the costs of military expansion were central to Japan's adoption of the gold standard, for example.[146]

The inclusion of Liberia in the debate about colonial currency regimes raises a number of questions. The first is the extent to which different interest groups gained or lost from the exchange rate regime in place at the time. The continuing restrictions on the actions of African central banks after independence suggests that, as in Liberia, key constituencies in many former British colonies also gained from the monetary stability offered by the currency board system. In a context in which multiple currencies often circulate, such an approach also implies investigating why actors choose one currency over another.[147]

The second is whether monetary independence in colonial Africa would, in fact, have benefitted colonial economies.[148] The structural factors which undermined the Liberian dollar were also present elsewhere. Budget crises were common in African colonies which, like Liberia, were vulnerable to changes in external demand for their exports.[149] It seems likely that other African territories would have also succumbed to the temptation to print money in order to fund either emergency expenditure or development efforts, if they had not been limited by a super-fixed regime. The fear that colonial administrations would do just that was one of the key motivations for the establishment of currency boards in British colonial Africa.[150]

Liberia has often complicated assessments of the costs and benefits of colonialism in Africa. In a widely-publicized interview in 1957, Charles King, the Liberian representative to the United Nations, argued that colonialism explained why Ghana

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[146] Schiltz, 'Money on the road to empire'.
[147] These issues are explored in Azam, *Trade, Exchange Rate, and Growth*.
[148] This remains a matter for debate even today. See Azam, *Trade, Exchange Rate, and Growth*.
[149] Gardner, *Taxing Colonial Africa*, p. 64.
[150] Herbst, *States and Power*, p. 206.

was more developed than Liberia. He described the difference between Liberia and Ghana as ‘the difference between the home of a man who has had to accomplish everything by his own sweat and toil and that of a man who has enjoyed a large inheritance’.[151] Just a few years later, Northwestern economist George Dalton wrote ‘for those who are impressed by the favourite myth of African political leaders - that before European colonization Africa must have enjoyed some sort of golden age, because its present economic and social problems are the evil legacy of wicked European colonialism – an examination of Liberia is instructive’.[152] While the case for Liberia as a counter-factual to colonialism cannot be taken too far, owing to the limited legitimacy of the Americo-Liberian state, it can perhaps yield some insights. Liebenow draws a comparison between Americo-Liberians and the Zulu, or the Amharic-speaking peoples of Ethiopia.[153] In Ethiopia, the process of state consolidation, which took place during the nineteenth century, also involved pressure from both external and internal rivals, and the expansion of power was linked to international trade. Like Liberia, Ethiopia also used a foreign currency (the Maria Theresa dollar) despite having a history of coin production dating to the third century.[154] Indigenous African states may have faced similar fiscal challenges with respect to maintaining their sovereignty, and therefore the same choices with regard to their monetary and economic policy.

[151] Phillips, ‘Liberian upholds colonial benefit’, *New York Times*, 23 March 1957.
[152] Dalton, ‘History, politics and economic development in Liberia’, p 572.
[153] Liebenow, *Liberia*, p. 24.
[154] Marcus, *History of Ethiopia*, pp. 6-7, 63-90; Kuroda, ‘Maria Theresa dollar’.

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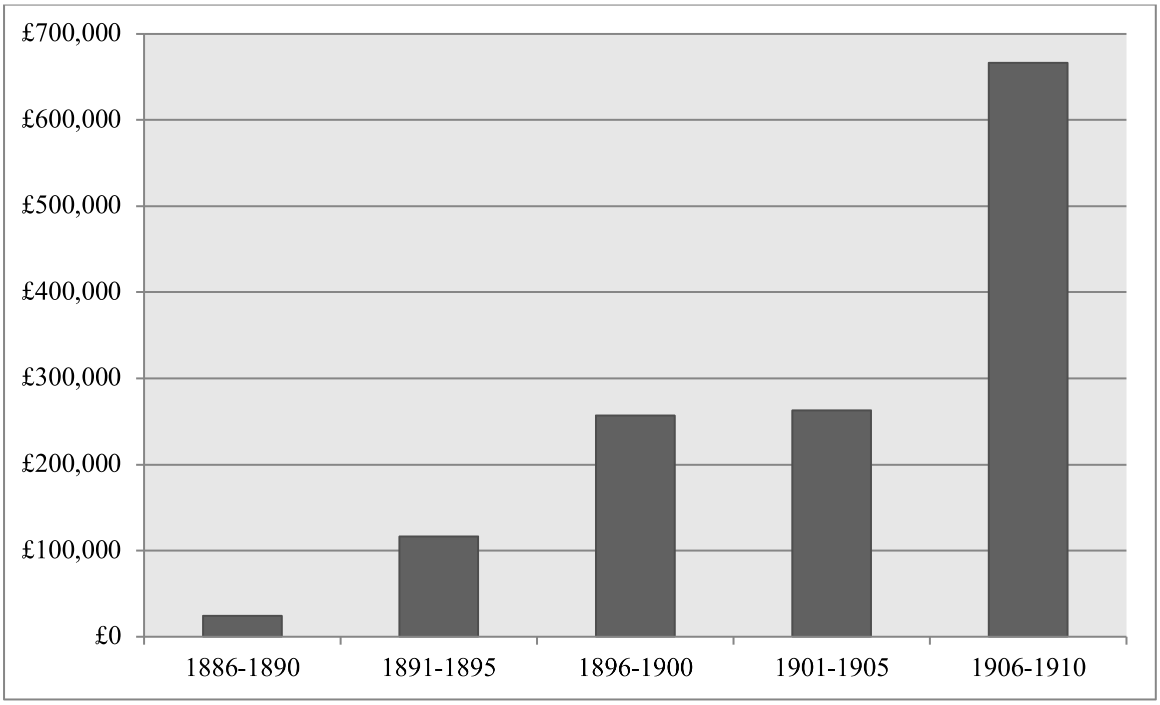
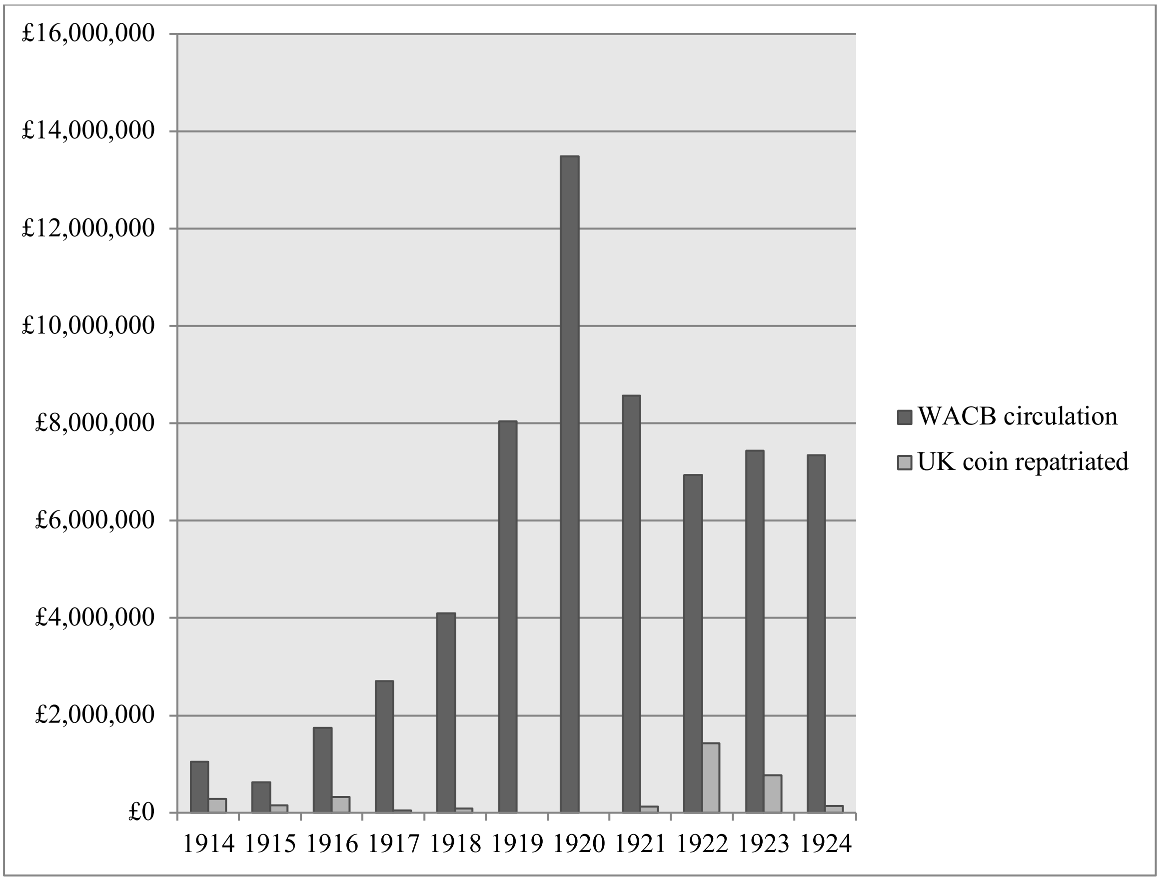
Fig. 1 Imports of British token silver coin into West Africa



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

Fig. 2 WACB Currency Issues and Repatriated British Silver Coin



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

Fig. 3 Principal Exports from Liberia, 1908 and 1938

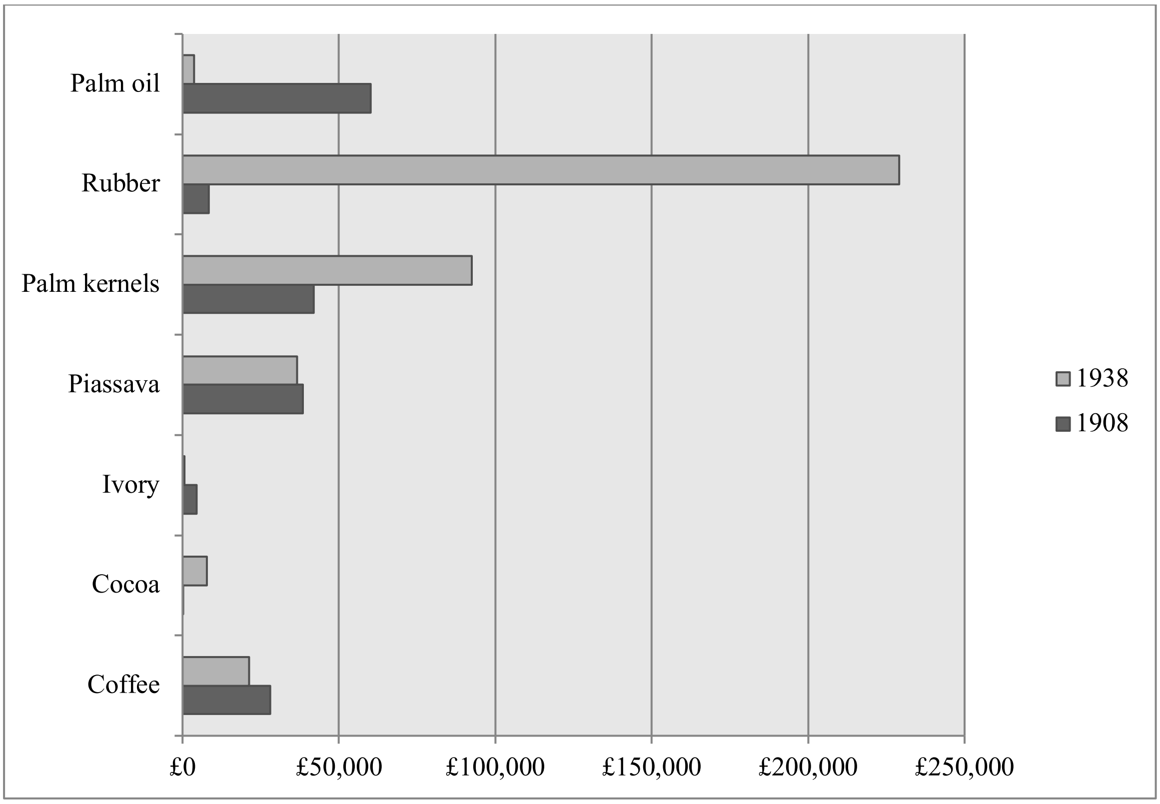


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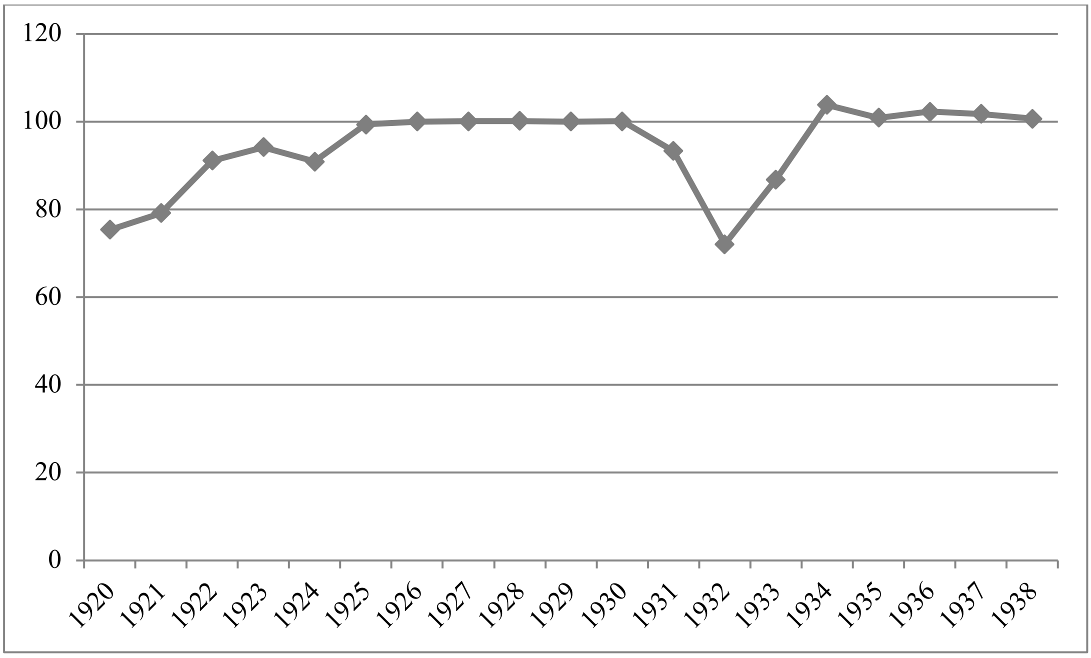
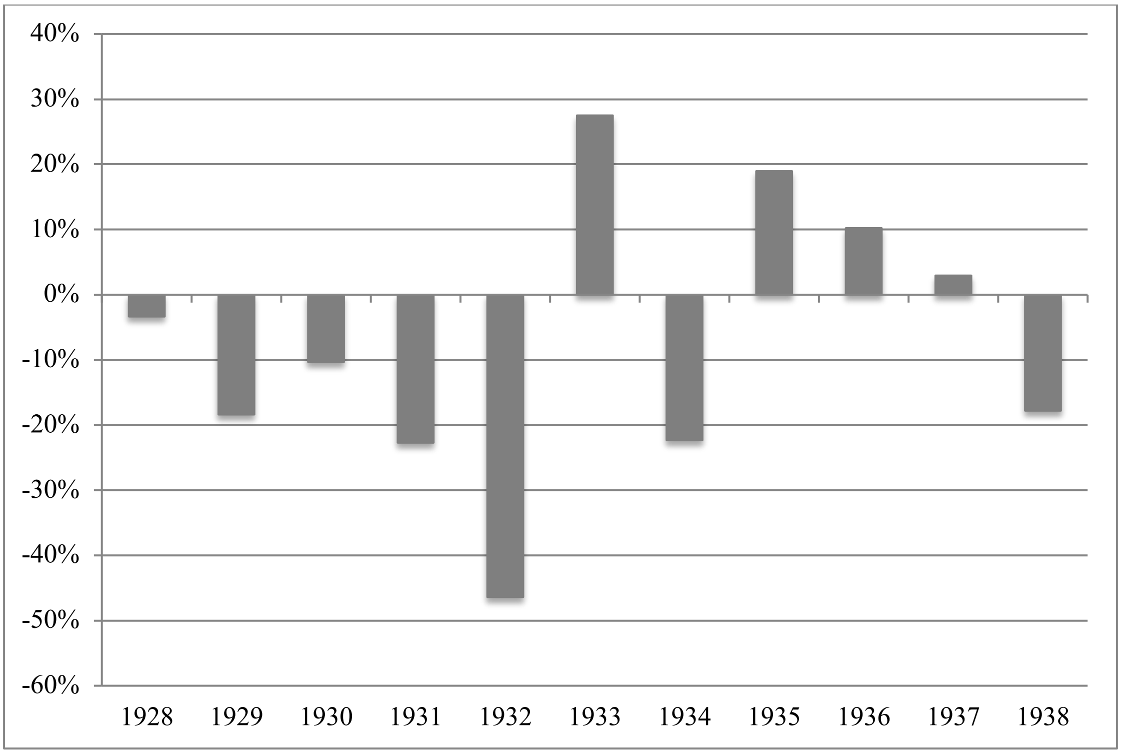
Fig. 4 Pound-dollar exchange rate, 1920-38



Source: Dimsdale, ‘British monetary policy’, tables 3 and 9.

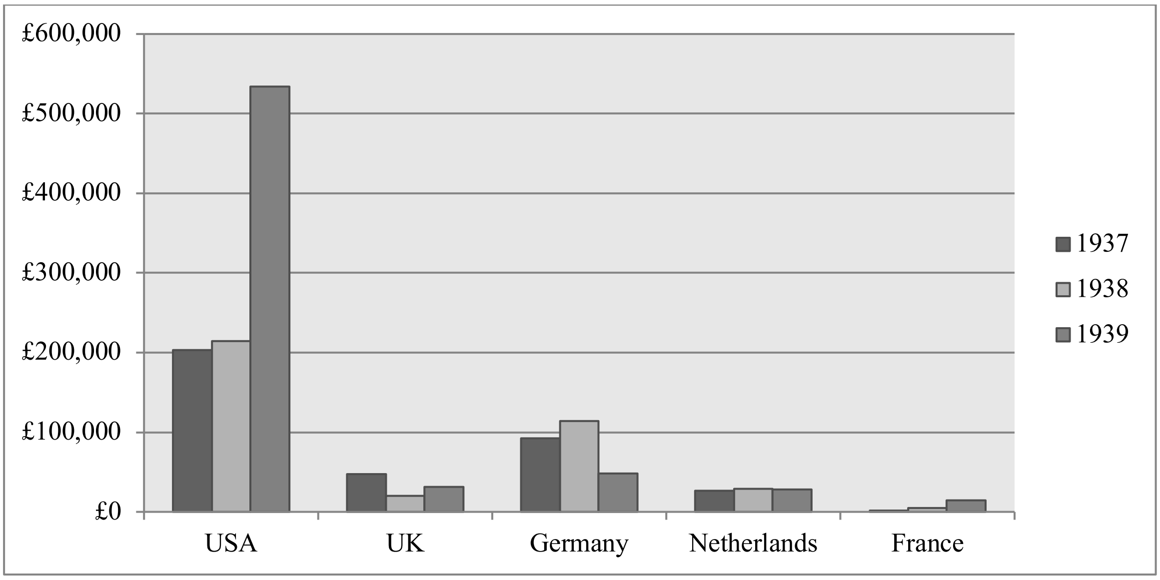
Fig. 5 Deficit/Surplus as a Percentage of Total Revenue, 1928-38



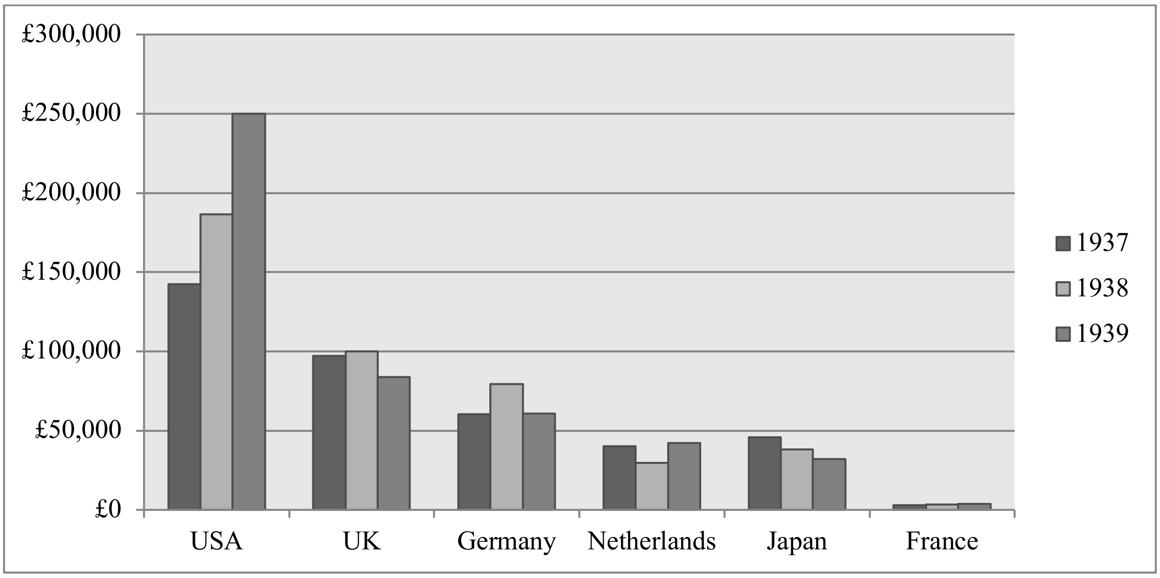
Source: Steadman, *Report on the Fiscal System of the Republic of Liberia*.

Fig. 6 Foreign Trade by Country, 1937-9

a. Exports



b. Imports



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