THE AMERICAN UNIVERSITY LIBRARY

Manuscript Theses

Unpublished theses submitted for the Master's degree and Doctor's degree and deposited in The American University Library are open for inspection, but are to be used only with due regard to the rights of the authors. Bibliographical references may be noted, but passages may be copied only with permission of the author, and proper credit must be given in subsequent written or published work.

This thesis by ______________________ has been used by the following persons, whose signatures attest their acceptance of the above restrictions.

A library borrowing this thesis for use by its patrons is expected to secure the signatures of the users.

NAME AND ADDRESS	DATE
Naji Shukri	
Grant Conway	25 ~~March~~ February 1954
" "	10 April "
" "	29 " "
	13 May 1954
John Petrakis 1722 19th St. N.W. Washington	
John Petrakis 1722 19th St. N.W. #402 Wash. D.C.	July 15. 1956

THE MONETARY SYSTEM OF FRENCH MOROCCO

by

Antonio Dore

A Thesis Submitted to the Graduate Faculty of

The American University

in Partial Fulfillment of the Requirements for the Degree of

Master of Arts

Washington, D.C.
1952

CONTENTS

THE MONETARY SYSTEM OF FRENCH MOROCCO

Chapter I. The State Bank of Morocco

1. Origins

The idea of a State Bank, to perform in Morocco what in modern terminology would be called central banking functions, was first conceived in 1904, at a time when the Sultanate was seriously involved in political and financial difficulties and France was trying to gain influence over the country.

Monetary disorder and political restlessness were not new evils in the history of Morocco. For almost twelve centuries the country had been accustomed to multiplicity of coins and to changes in their value, as well as to continuous rebellions of the Arab and Berber tribes to the political authority of the Sultans. Not until the end of the XIX century did the Sultan El Hassan succeed in giving an independent and uniform means of payment to Morocco. The new silver real of El Hassan, issued in 1881, was able to replace almost completely the Spanish duro and the various local coins previously circulating in the country. It also replaced as unit of account the gold dinar which was introduced in Morocco in the eighth century; it later disappeared as a means of exchange but remained the standard of value until the reign of El Hassan.

All kinds of disorders again shattered Morocco during the unhappy reign of El Hassan's son, Abd-ul-Aziz. In 1902 the new Sultan contracted a first loan with a group of French banks, and soon after a second and a third with English and Spanish banks. In 1903, in order to raise new funds, he debased the real. As a consequence, the Spanish duro, which previously had been exchanged at parity with the Hassani real, circulated in Morocco at a premium and was again preferred to the local coins as a means of payment and a standard of value.

In 1904, faced by the revolt of Bu Hemara, Abd-ul-Aziz found himself again short of funds. He was then advised by the French consul in Tangier to contract a new and larger loan in order to reorganize his army, which was in a state of dissolution.

A Consortium of French Banks headed by the Banque de Paris et des Pays-Bas, and assisted by officers of the French Government, negotiated a loan of about 50 million francs with the Sultan.1/ The loan agreement was signed in June 1904. It included two important clauses for the protection of the French interests: (a) the proceeds of the Moroccan customs were pledged as a guarantee of the loan; for this purpose a right to supervise the custom office was granted to the Consortium, and (b) the Consortium had to be notified before any other loan was negotiated and, at parity of conditions, was entitled to preference.

In this way France acquired control over the Sultanate's most important internal source of revenue and on possible external sources. A full rehabilitation of the country would have called, however, for a monetary and fiscal reform, establishment of a military force capable of dominating the country, and a program of public works. For these purposes much larger funds would be required than those provided by the loan. A proposal for the creation of a State Bank for regulating the monetary system and controlling the public finances of the Sultanate

---

1/ The nominal value of the loan was 62.5 million at a rate of interest of 5% but the bonds were sold at 82% of their face value.

was first advanced by the Bank Consortium during the negotiations for the loan.

The French Government, however, preferred to delay full discussion on the matter until the necessary diplomatic preparation of the more ambitious program was completed. At the end of 1904, after having reached an agreement with Spain, the proposal was again presented to the Sultan by the French representative in Tangier. A Consortium of Spanish banks had been allowed to become retroactively part of the loan agreement of June 1904 and to acquire the same privileges as the French Consortium.

The negotiations with the Sultanate for the creation of the State Bank began on February 22, 1905. They were already well advanced when on March 31 the German Emperor William II unexpectedly landed in Tangier during the course of a Mediterranean cruise and expressed the wish that Morocco would remain a free territory, open to competition from all Nations on a basis of complete equality, without monopolies or special privileges for any of them. Soon after, the German press started a violent campaign protesting the attempted violation of the treaty of Madrid and requesting a new international conference to solve the present difficulties of Morocco. Abd-ul-Aziz favored the idea, hoping to profit by the differences among the European Powers.

The Conference was opened in Algeciras on January 16, 1906. It was attended by representatives of the same thirteen Nations which had participated at the Conference of Madrid in 1880, namely: Austria-Hungary, Belgium, France, Germany, Great Britain, Italy, Morocco, Netherlands, Portugal, Russia, Spain, Sweden and United States of America.

The two different positions at the Conference were that of Germany, seconded by Austria-Hungary, and that of France. Morocco played a passive role. All the other nations were more or less on the French side. France maintained the thesis that the assistance needed by Morocco could not be given under the formula of an international protectorate. The Conference should make its recommendations but their implementation should be mainly the task of France together with Spain. With respect to the creation of the State Bank, France was prepared to see its capital subscribed by banks of the different nations, but wanted the State Bank to perform a purely technical role with its main aim the rehabilitation of the monetary system. Germany, on the contrary, insisted that the Powers participating in the Conference should co-operate in assisting Morocco. Through the State Bank, which should be headed by a political body representing the respective Governments, the thirteen Powers should control the financial set-up for the reorganization of the Sultan's Army, the execution of public works and fiscal reforms as well as monetary matters.

The German proposal did not appear very practicable in the actual situation and the final resolutions of the Conference were mostly in line with the French approach. The task of organising a police force in Morocco was entrusted to France jointly with Spain. About matters of taxation, customs policy, arms contraband, public services and public works, recommendations were made in the final act of the Conference without specifying the governments responsible for their implementation.

The articles concerning the creation of the State Bank of Morocco resulted from a compromise between the two groups. Although its role was limited in relation to the German proposal, the State Bank was created, with undeniable international characteristics, as an organization subject to the joint supervision of twelve Powers.

The Charter drawn in Algeciras, as amended in 1926, 1930, 1936 and 1946, remains at present the legal basis of the State Bank of Morocco.

2. Characteristics of the State Bank

The charter of the "Banque d'Etat du Maroc" is a part of the General Act of Algeciras signed on April 7, 1906. The Statutes of the Bank were drafted by a special committee in accordance with Article 57 of the General Act, and were approved by the General Assembly of the stockholders on February 25, 1907.

The State Bank of Morocco is a unique case of a bank exercising public functions proper to a Central Bank, and deriving its legal authority from an International Agreement. The General Act defines the banks as a corporation governed by the French law. It must, however, be noted first that the French law is applicable only inasmuch as it is the law delegated by the General Act of Algeciras to supplement its rules; and, second, that these rules differ substantially from those which govern corporations in France, especially with regard to the organization of the Bank.

The duration of the Bank was originally established for forty years ending on December 31, 1946. Before the charter expired the Bank's privileges were renewed for a period of twenty years. The legal residence of the Bank is in Tangier, where the Bank has its main office. However, the administration of the Bank was located in Rabat and the Board of Directors usually meets in Paris. The Bank has agencies in the most important cities of the Sultanate and an office in Paris.

The private field of operations of the Bank is stated very broadly in the Bank Charter and Statutes; "the Bank can do all kinds of business proper to a banking institution". They are specifically mentioned: short-term loan and discount operations, receiving of deposits, exchange of money, trade of securities for the account of customers, etc.

More important are the exclusive rights given to the Bank in the public field.

The State Bank is the only bank in the country having the privilege to issue legal tender notes, convertible on demand. The convertibility clause, which apparently referred to convertibility into silver coins, was customary at a time when inconvertibility of paper money was exceptional. Minimum reserve equal to one-half of the note circulation was required during the first two years of the Bank's operations, and a 33-1/3 percent reserve was required thereafter. The form in which this reserve had to be held was not specified, except that one-third of the reserve should consist of gold and/or gold coins. No provisions exist for reserves against deposits.

The State Bank is allowed to do "whatever it considers necessary to establish a sound monetary system in Morocco". Consequently, the Bank is the only institution in charge of the minting of coins and related operations. These very broad powers later entitled the State Bank to endorse a complete change of the monetary system.

The special privileges already granted to the French Banks Consortium as a consequence of the loan of June 1904 were transferred to the State Bank, while the Consortium was entitled to 2/14 of the capital stock of the State Bank of Morocco. As a consequence, the State Bank had the right of preference to any loans the Sultanate might wish to negotiate in the future, and the right to receive custom proceeds and to supervise the custom office.

In addition, the Bank is entitled to be the financial agent of the Moroccan government for the placing and service of Treasury Bonds and can also receive in an open account all other government revenues which the Sultanate can freely utilise. Moreover, within certain limits, the Bank is allowed to make advances to the Sultanate Government.

The capital of the Bank was initially fixed at fr. 15,400,000 represented by 30,800 marketable and nominative shares of an individual value of francs 500. The total amount was divided in 14 parts of 2,200 shares each. Twelve parts were reserved to the powers represented at the Conference of Algeciras[1/] and two parts to the Bank Consortium which signed the loan agreement with Morocco in June 1904. In accordance with the Act of Algeciras the parts had to be represented by banking institutions.

The French part as well as the two parts reserved for the Bank Consortium were represented by the Banque de Paris et des Pays-Bas. The governments of Spain, Italy and Portugal named as holders of their parts the respective central banks, and the Moroccan government named a high officer of the Sultanate. The parts reserved to the other Powers were held by private banking institutions of the respective countries.

The original holders or representatives of the fourteen parts of the bank stock had the right to designate one director for each part, provided that they continued to hold title to at least one-half of the shares subscribed. If, as a consequence of sales, holders of the parts

1/ The United States of America did not avail themselves of this right.

were no longer entitled to appoint directors, the General Assembly of the share-holders would elect the directors needed to fill the vacancies. The system of nomination of directors by the holders of the original parts represents one departure - as was mentioned above - from the normal procedure of French corporations. Other departures will be noted in the organization of the Bank which was governed and controlled by the Bodies to be mentioned in the following paragraphs.

A) The Board of Directors of 14 members - designated or elected - has the largest powers in the administration and management of the State Bank. Decisions are taken by a simple majority vote, with the possibility of the absentees expressing their vote by telegraph or by proxy through another director. Decisions are not valid unless 7 votes are cast, of which 5 at least must be by directors personally attending the meeting.

B) The Committee of Auditors, originally composed of four members designated by the Central Banks of Germany, Great Britain, France and Spain1/ has the task of supervising the functioning of the Bank and of ascertaining that the articles of the charter and the statutes are strictly observed. Their annual report to the General Assembly should be annexed to the Report of the Board of Directors. The Auditors, however, cannot interfere with the management of the Bank.

C) An Imperial High Commissioner has the right to be informed about the management of the Bank for the protection of the Sultanate interests.

1/ Since 1919 the committee has only 3 members since Germany has withdrawn from the Bank.

D) The Commissioners (one or more) are elected every year by the General Assembly to make a report at its following meeting on the financial state of the Bank and on the budget and balance sheets presented by the Board of Directors.

E) The Discount Commission is an advisory body whose members are selected by the Board of Directors from people residing in Tangier. The Commission advises the Board periodically on discount and credit policies.

F) The General Assembly of the stockholders can be attended by any stockholder having direct title to or representing the holders of at least twenty shares of the capital stock of the Bank. Ordinary Assemblies meet every year in the place chosen by the Board of Directors. Extraordinary Assemblies can also be called by the Commissioners in case of urgent need.

The normal functions of the General Assembly, besides those already mentioned concerning elections of Directors and Commissioners, are mostly perfunctory. A clause prevents that subjects other than those chosen for the Agenda by the Board of Directors be discussed in the Assembly.

The Assembly is usually called to approve or reject the accounts of the Bank. Amendments to the statutes must be proposed by the Board of Directors and need to be approved by a two-thirds majority of the Extraordinary General Assembly.

Other rules provide for the possible liquidation of the Bank, litigations, distribution of profits, legal reserves, etc. Without entering into further details about the legislation of the State Bank of Morocco, it can briefly be said that the drafters of the General Act of Algeciras created a Central Bank of Morocco governed by a Board of Directors, international in its composition, subject to the normal type of administrative controls, and to a Committee of Auditors having the task - mostly political - of safeguarding the terms of the Algeciras Agreement.

3. Changes in the Scope and Control of the State Bank

Modifications of the statutes of the Bank are not very significant. They are concerned with the renewal for twenty years of the privileges of the Bank and with increases of the capital stock.

On the contrary, the scope of the Bank changed considerably due to the different economic and political situation in which the Bank had to operate. From this point of view, it is possible to distinguish three periods in the history of the Bank:

A) 1906-1912. During this period the scope of the Bank remained what the drafters of Algeciras had intended to provide for, namely, an institution ruled by Europeans in charge of public economic functions in Morocco: in other words, a sort of economic protectorate over the Sultanate. The increasing importance of military forces of France and Spain, which according to the Act of Algeciras were responsible for the pacification of the country, foreshadows the new political organization of the country achieved through the Treaty of Fez.

B) 1912-1920. The signature of the Treaty of Fez (March 30, 1912) marks the formal end of the independence of Morocco and the establishment of the French and Spanish Protectorates. Previously, in November 1911, Germany had been induced to sign a convention with France, practically leaving the latter with free hands in Morocco. The establishment of the protectorate gave to France and Spain the right and the instrument of direct control over Moroccan public affairs. The role of the State Bank of Morocco consequently changed considerably, becoming one element instead of the main institution in charge of the economic protection of the Sultanate. The public powers of the Bank instead of being imposed on the weak Sultanate now had to be coordinated with those of the Protecting Powers.

C) Since 1920. After the victory over Germany, France obtained the majority in the voting capital of the State Bank and, moreover, created in Morocco a monetary system tied to that of Metropolitan France. Since the Moroccan franc is a satellite money with respect to the metropolitan franc, the role of the State Bank of Morocco reflects this character of Central Bank of a dependent monetary system. The participation of nationals of countries other than France in the capital of the Bank has almost completely lost political significance.

As for the institutional changes in the structure of the Bank, the most important modification concerned the distribution of the Bank's voting stock and consequently the composition of the Board of Directors by nationalities.

The Peace Treaties of Versailles (June 1919) and Saint-Germain (September 1919) include some articles according to which Germany and Austria, respectively, renounced the rights they had derived from the Act of Algeciras and subsequent agreements with France on Moroccan questions. Both Germany and Austria transferred their shares of the capital of the State Bank of Morocco to entities designated by the French Government; in the case of Germany the shares were transferred to the Bank of Algeria, and in the case of Austria to the Banque de Paris et des Pays-Bas.

Soon after the Government of the U.S.S.R., pressed by its need of foreign exchange, transferred the Russian part to the Banque de Paris et des Pays-Bas and Great Britain - as a friendly diplomatic gesture - transferred her part to a public banking institution of her war ally, the French "Caisse de Dépôts et Consignations".

It must be added that in 1920 the shares which originally constituted the part of the Moroccan Sultanate had been already sold out mostly to French nationals.

On the other hand, the original capital of the State Bank of Morocco (francs 15,400,000) was doubled in 1926 and was brought to three times the original amount in 1930, that is, to francs 46,200,000. The increase was effected by issuing new shares based on esisting reserves to present stockholders proportionately to their holdings. Besides the large trasfers of shares mentioned above, considerable sales between entities of different nationalities have taken place since 1906, as it is shown in the following table.

Capital of the State Bank of Morocco

Distribution of the Shares by Nationality of the Owners

	Original Distribution		Present Distribution 1/	
	No. of Shares	Percentage	No. of Shares	Percentage
France	6,600	21.42	52,891	57.2
Spain	2,200	7.14	9,416	10.2
Portugal	2,200	7.14	6,597	7
Belgium	2,200	7.14	6,500	7
Netherlands	2,200	7.14	6,450	7
Italy	2,200	7.14	3,399	4.1
Sweden	2,200	7.14	2,970	3.2
Great Britain	2,200	7.14	759	0.8
Austria	2,200	7.14	-	-
Germany	2,200	7.14	-	-
Russia	2,200	7.14	-	-
Morocco	2,200	7.14	-	-
Vatican	-	-	3,200	3.3
Various	-	-	218	0.2
Total	30,800	100	92,400	100

1/ The data refer to the situation existing on December 15, 1947. However, it seems that no important changes have occurred in the following years.

Source: A. J. Marty. Le Franc Marocain, Monnaie satellite (Paris, 1951).

The preceding table shows that entities of French nationality now hold the majority of the shares of the State Bank. This situation enables France to have eight French directors: three nominated, as originally, by the Banque de Paris et des Pays-Bas and five elected by the General Assembly. Of the remaining six directors, five are nominated by the representatives of the parts of Spain, Portugal, Belgium, Netherlands and Italy. Since 1949 the General Assembly chose a Moroccan subject to be the fourteenth director.

It is also interesting to note that out of 52,891 shares held by entities of French nationality, 17,667 were recently held by nationalised banks or public institutions, 18,110 by the Banque de Paris et des Pays-Bas, 14,936 by other banks and 3,178 by non-banking firms and individuals. The Banque de Paris et des Pays-Bas, which remains the largest single stockholder of the State Bank of Morocco, is a bank "d'affaires" and, as such, is now subject to the control of a government Commissioner with veto power on all major decisions (Law of December 2, 1945). Moreover, the French Government participates in a majority or minority position in the capital of most private banks. These strict relations between the government and the banking system in France make practically impossible any open divergence within the French group on the policy to be followed by the State Bank of Morocco.

SUMMARY

Economic and political disorder in Morocco and rivalries between European Powers led to the International Conference of Algeciras (1906), which gave origin to the State Bank of Morocco.

The State Bank carries on functions proper to a central bank as well as to a private banking institution. It was originally conceived as an international instrument to exercise a sort of economic protectorate over the Sultanate. In 1920, however, France obtained controlling power over the State Bank and, with the establishment of the Moroccan franc system, introduced in Morocco a currency tied to the Metropolitan franc. Since then the State Bank has played the role of a central bank in a dependent monetary system.

Chapter II. Evolution of the Monetary System

When the State Bank of Morocco was established, the Sultanate was going through a very troubled phase of its history. In 1908, Abd-ul-Aziz was attacked by his older brother, Mulai Hafid, who had been recognized Sultan by the tribes of the South. Abandoned by his soldiers, Abd-ul-Aziz fled to the French Army for refuge. Four years later Mulai Hafid, himself faced by rebellions, signed the Treaty of Protectorate with France (Fez, March 30, 1912) and soon after was induced to abdicate in favor of another brother, Mulai Yusef. After that the military operations, under the leadership of Lyautey, proceeded more rapidly. The complete pacification of the country was achieved in 1934; the last full-scale operations were those conducted in 1925-1926 in the mountainous Rif region to repress the rebellion of Abdel-Krim. The accomplishments of Lyautey and of his successors were not, however, purely military. The political, administrative and economic reorganisation of Morocco is the greatest achievement of the French during this period. The economic development of the country continued, despite all difficulties, even during World War I and was particularly enhanced thereafter.

1) From the Establishment of the State Bank of Morocco to the Creation of the Moroccan Franc (1907-1920)

A. - Spanish coins and "Hassani" currency

The period 1907-1920 is characterised by an increasing multiplicity of monetary forms and the development of a banking system in Morocco. Although it is not possible to have a quantitative measure for all the different means of payment in active circulation, their order of relative importance in the money supply of Morocco and their characteristics seem to have changed as follows during the period:

1907	1919
1) Spanish coins	1) Inconvertible Algerian franc notes
2) Hassani coins	2) Hassani coins (including new issues of the State Bank of Morocco)
3) Convertible Metropolitan franc notes	3) Inconvertible Metropolitan franc notes
4) Convertible Algerian franc notes	4) Franc deposit money
5) Old coins, other foreign currency, etc.	5) Spanish coins
	6) Convertible Hassani notes of the State Bank of Morocco
	7) Hassani deposit money
	8) French coins
	9) Old coins, other foreign currency, etc.

(Note: Underlined items are legal tender money at the dates indicated)

In 1906 a considerable amount of Spanish coins circulated in Morocco and the Act of Algeciras had recognised this money as legal tender in the Sultanate.

With regard to the issue of local currency, no written rules existed except those in the Koran, with the interpretation given by the experts of Moslem religious law. According to these texts, the monetary system of Morocco was a bimetallic (gold and silver) monetary system. In fact, however, gold coins had since long disappeared from circulation being hoarded or exchanged abroad at their metal value. The minting of silver coins was a prerogative of the Sultan, although sometimes usurped by his contenders.

These silver coins were neither full body money nor purely token money. In fact, in the absence of free exchange between silver and coins, the coins may well be worth more than the value of their silver content, plus minting expenses, when they perform a specific monetary function within the country and their supply is relatively scarce in relation to the actual monetary requirements of the economy. As the Sultans had learned to their advantage, fluctuations of the value of the coins they issued above parity with silver could be substantial.

In 1907 the Moroccan money in circulation consisted almost exclusively of "Hassani" coins, so called from the name of the Sultan El Hassan. They were of two types: the coins first issued by El Hassan in 1881, which were based on a silver real of 29 grams; and those issued from 1903 to 1906 by Abd-ul-Aziz which were based on a silver real of 25 grams. Both reals were very similar to the Spanish duro, a silver coin of 25 grams, circulating at the time in Morocco as well as in Spain.

The main economic differences between the Spanish and the local Moroccan money were originally due to the fact that (a) the Spanish money could be used as such for making foreign payments1/ which the Moroccan money could not; and (b) that the value of the Spanish money was not subject to manipulation by the Sultans and had been much more stable than the Moroccan money. The lack of physical uniformity among different Moroccan coins of the same denomination and among their fractional units was an additional bad feature of the local circulation.

The State Bank first tried throughout Morocco to achieve uniformity rather than stability of the exchange rates between different coins. The effectiveness of the Bank's operations could not be too great due to the

1/ The Spanish money, which was at the time on a silver standard, had been used for direct payments between Spain and Morocco and as an intermediary for payments to and from other countries, mostly on a gold standard.

disrupted political conditions of the country and to the limited facilities available to the State Bank for this purpose in its first years of existence. The Bank, however, succeeded in reducing the possibility of arbitrage operations, on which a large number of merchants had made easy profits in the past.

Finally, in 1911, under the pressure of higher currency requirements, the State Bank of Morocco entered into a more active phase with the new issue of coins. The presence of larger occupation forces, the revival of trade and an intense speculation in land transactions justified an increase in circulation.

The silver coins of the State Bank were also of the Hassani type, based on a unit of 25 grams as were the reals issued by Abd-ul-Aziz after 1903. The common unit of account became, however, the Peseta which was equivalent to one-tenth of the old real and one-fifth of the Hassani duro.1/ About 127 million Hassani Pesetas were minted by the State Bank between 1911 and 1919.

Previously, between 1881 and 1903, the issue of Hassani coins based on a real of 29 grams had attained a total of about 80 million hassani pesetas and beween 1903 and 1906 the new coins of Abd-ul-Aziz had amounted to some H.P. 77 million. The coins of the State Bank, like the previous ones of Abd-ul-Aziz, were partly made out of new stocks of silver and partly by reminting Hassani coins of the 29 grams type. The profits realized from these monetary issues should go, according to the Act of

1/ Apparently since the State Bank started to operate, the unit which formerly had been called 1/2 real or duro came to be known by the name of "real".

Algeciras, to the Sultanate Government, on whose behalf the State Bank issued the coins. But at first one-third of the proceeds, then one-half and since 1914 the entire amount has been used to establish a reserve for stabilizing the exchange rate of the Hassani.

The amount of credit money of the Hassani type, issued by the State Bank, was not very important. The first type, introduced in 1909, was the cashier's check, mainly utilized by traders to transfer funds between cities of Morocco without actual transport of coins. The cashier's check attained a maximum circulation of almost H.P. 900,000 in 1911.

Hassani notes proper were first introduced in December 1910 in denominations of one hundred pesetas. Their circulation never attained a high level, however, due to the reluctance of the native population who were not accustomed to paper money and who were very suspicious of currency manipulations.

Circulation of Hassani Notes

Dec. 31, 1911	H.P.	1,196,500
" 1915	"	5,461,600
" 1919	"	2,537,320

Source: State Bank of Morocco, Report of the Auditors to the General Assembly of June 28, 1920.

B. French franc circulation

Finally, attention must be called to the circulation of French bank notes in Morocco, which became increasingly important during the period 1907-1920. The French money had been already accepted in Morocco in the XIX Century, expecially in the eastern part of the country bordering on Algeria. The French occupation forces, which had been in Morocco since 1907, became a much more important vehicle for the expansion of the French circulation. The troops in the region of Casablanca were first paid with notes of the Bank of France, and those in the region of Oujda with notes of the Bank of Algeria. Later, after 1914, all troops were paid with Algerian francs. Theoretically, the men of the French army should have exchanged their francs into Hassani money before making local purchases, but in fact very soon merchants in frequent contact with the French troops became accustomed to take payment in French money. The larger scale of military operations after 1911, and the progressive pacification of the country after the establishment of the Protectorate enhanced the process of expansion of the franc circulation in Morocco.

According to De Roux[1] the exchange rate between the Hassani Peseta and the Franc had varied considerably in the four years preceding the establishment of the State Bank of Morocco, reaching a minimum of H.P. 1.35 per franc in November 1903 and a maximum of H.P. 1.85 per franc in August 1905. In that period, the tendency of the value of the Hassani to decline in relation to the Franc reflected: (a) directly, the inflationary impact of the monetary issues of Abd-ul-Aziz, made during a period of political and economic weakness of the Sultanate and, (b) indirectly, the crisis of the Spanish money to which the Moroccan coins were strictly tied at the time.

Since the establishment of the State Bank of Morocco, on the contrary, the value of the Hassani in terms of francs tended to rise.

1/ De Roux - La réforme monétaire au Maroc, (Paris, 1928)

Exchange Rates of the Hassani Peseta
(in terms of francs 100)

	Maximum	Minimum	End of the Year
1908	163.5	147.6	158
1910	154	143.5	151.5
1912	124	116	124
1914	138.5	126.5	138.5
1916	130.5	123	123

Source: State Bank of Morocco: Reports to the General Assembly.

During 1907-1916 the appreciation of the Hassani in relation to the Franc was the consequence of a higher effective demand for local goods and services on the part of the "franc area of Morocco", and of the relatively small increase in the supply of hassani currency. In this period the frontier of the "hassani area" ran according to social rather than geographical boundaries: the poor section of the native population, the farmers, the inhabitants of regions not yet occupied by the French still used exclusively hassani coins for their transactions. The export surplus of the purely hassani area, in relation to the area where both francs and hassanis were accepted as payment, tended to drain hassanis out of the latter area and to raise their value in terms of francs.

In contrast with the moderate increase of the hassani money which also had a low velocity of circulation, was the large increase of the franc supply in Morocco, enhanced not only by military expenditures, but also by the expansion of banking activities in Morocco. Particularly important were the discount operations in Algerian francs of the Algero-Tunisian Bank for Export Trade, an affiliate of the Bank of Algeria. The latter bank, which was the Bank of Issue in Algeria and Tunisia, encouraged the expansion of its notes in Morocco, hoping to replace eventually the State Bank of Morocco.

In 1914, the suspension of the franc convertibility into gold gave rise in Morocco to a general rush to withdraw deposits and to exchange notes into coins. Among the measures taken to relieve the banks of Casablanca of their difficulties, and to avoid a further appreciation of the Hassani coins, was the granting of legal tender status in Morocco to the notes of the Bank of France and of the Bank of Algeria.

From 1914 until 1920 three independent currencies were therefore legal tender in French Morocco: the Hassani, the Spanish and the French currency. No exchange problem existed between the Algerian and the Metropolitan francs, since a convention passed between the Bank of Algeria and the Metropolitan Treasury assured unlimited credits in both currencies, as needed to maintain parity between them. The importance of the Spanish circulation in the French Protectorate was continuously declining. The real problem besetting the monetary system of Morocco was then the instability of the exchange rate between the Hassani coins and the French notes.

A first attempt at stabilization was tried in 1917, despite the difficulties encountered by the mint office in Paris in providing large amounts of Hassani coins. The exchange rate of the Hassani could have been de facto stabilized at H.P. 124 per frs. 100 between January and September 1917, but in October the rate had to be revalued at parity. The new stabilization which was deemed to be definitive, lasted in fact only two years. The failure of both attempts at stabilization was due to causes different from those which had previously tended to raise the value in francs of the Hassani pesetas. The boom of silver in the London market, later combined with the fall of the franc in terms of pounds, raised the franc value of the metal content of the Hassani, so that at the end of September 1917 the silver of H.P. 110 (instead of 124) was worth francs 100 and in October 1919 the metal of H.P. 100 was worth something more than one hundred francs. On both occasions the maintenance of the previously established rate was impossible, because the sale of the coins for their metal value would have been more profitable.

The break of parity of the franc-hassani rate in October 1919 made inevitable and urgent a radical reform of the monetary system of Morocco, a reform which had been considered since 1914. At the end of 1919 the franc price of silver continued to rise and it was not possible to forecast when and at what level it would settle. Reliance on "stabilisations" had been so badly shaken in Morocco that recovery of confidence in a new rate would have been in any case a long and difficult process. Meanwhile the franc value of the hassani had doubled and so had the cost of living for the Europeans residing in Morocco and for that part of the native population in closer contact with them.

The only solution appeared to be the unification of the monetary system: either on the basis of the Hassani, or on the basis of the Franc. The first alternative was finally chosen and a "dahir" (decree) for demonetising the Hassani was enacted on March 19, 1920. The dahir provided a certain period during which the Hassani currency would have been exchanged against notes of the Bank of Algeria and Bank of France at an initial rate of one hassani per two francs. Sanctions were threatened against persons not complying with the dahir and persisting in making or receiving payments in hassani currency. The operations for the collection of the hassanis were carried on by the State Bank on behalf of the Sultanate Government.

At the end of the period allowed for the exchange of Hassanis the State Bank had in its vaults some 80 million hassani pesetas. Later, however, other considerable amounts of hassanis were confiscated or withdrawn at a lower rate of exchange. Certainly more than 50% of the Hassani currency estimated in circulation at the time of the dahir of demonetization (some H.P. 180 million) were since then withdrawn, voluntarily or forcibly. The cost of the operation, including premiums for the cooperation of the local Moroccan officers, ran on the average around francs 1.75 per hassani peseta retired. The financial requirements were met in part by utilizing franc reserves of the Sultanate, in part through advances without interest of the State Bank, but mainly though advances in Algerian francs made by the Algero-Tunisian Bank. 1/

2) The Moroccan Franc

Recognition of the notes of the Bank of France and Bank of Algeria as legal tender in Morocco (1914) and utilisation of them for withdrawing the Hassani circulation (1920) were measures which hardly could be considered in accordance with the General Act of Algeciras and the issue privilege of the State Bank of Morocco. The Committee of Auditors in its Report to the General Assembly of June 28, 1920, made this mildly critical comment: "Was it (the period from October 1917 to October 1919 in which the hassani peseta and the franc were exchanged at parity) the

---

1/ In order to withdraw a first amount of H.P. 70 million, the following funds were available to the State Bank:

From Sultanate Reserves	Frcs. 23 million
From Advances of the State Bank of Morocco	29 "
From Advances of the Algero-Tunisian Bank	75 "
Total	Frcs. 127 million

proper time to declare the inconvertibility of the hassani notes and to reestablish a uniform Moroccan system based on that currency? And could the existing parity (of the hassani peseta with the franc) be then maintained as a lasting policy objective? It was not judged so."

It is known that only at the last moment a clause was inserted in the dahir of March 19, 1920, mentioning the eventual substitution of the notes of the Bank of France and Bank of Algeria with a Franc note issued by the State Bank of Morocco. As a matter of fact, through all this period the future existence of the State Bank was itself a point under discussion. It seemed that the new political status of Morocco no longer justified a Bank of the type envisaged in Algeciras. However, since the dissolution of the State Bank had not occurred and its statutes were going to remain practically unchanged, it was necessary that the formal characteristics of the monetary system should be more in agreement with the charter of the State Bank of Morocco. It must be recalled at this point that since 1920 France had obtained controlling power on the Bank.

The dahir of June 21, 1920, stated that the notes to be issued by the State Bank would in the future be the only legal tender currency recognised in Morocco. Other franc notes would be allowed to circulate only temporarily. The issue of Moroccan francs started in November of the same year and a decree of March 1922 declared legally terminated the period of tolerance for Algerian and Metropolitan notes. This decree, however, was not enforced until the beginning of 1925.

Three separate agreements concluded about that time by the State Bank allowed it to become in fact, as well as in principle, the sole institution having the privilege of issuing currency in Morocco. The three agreements of the State Bank were:

a) The convention with the Moroccan Government of November 10, 1924, by which the latter, inter alia, engaged itself to take severe measures in order to prevent the circulation in French Morocco of bank notes other than those issued by the State Bank.

b) The convention of November 29, 1924, with the French Metropolitan Treasury, renewing for an indefinite period the previous three year agreement concerning the so-called "operation account" system.

c) The agreement with the Bank of Algeria, effective on January 14, 1925, by which several controversial matters between the two banks were finally regulated. Direct or indirect interference by each Bank within the area of monetary authority of the other Bank was explicitly precluded. Accordingly, it was decided that the Algero-Tunisian Bank, the correspondent in Morocco of the Bank of Algeria, had to be liquidated.

The system which was finally established in 1925 is practically the same as the one still governing the monetary economy of French Morocco. Changes within this regime which have occurred in the last 27 years mainly reflect parallel changes in the monetary system of Metropolitan France, such as: reestablishment and then definitive abandonment of notes convertibility into gold, devaluations of the franc, introduction of exchange controls, etc.

3) The "Operation Account"

The demonetisation of the Hassani currency had solved the problem of internal exchange rates by giving to French Morocco a uniform monetary system based on the "franc". The creation of a bank note distinguished from the Metropolitan and the Algerian franc posed again the problem of the external rate of exchange of the new currency.

In 1920 the system of the operation account was already used by the Bank of Algeria and the Bank of Madagascar as an automatic exchange rate stabiliser for their notes. At first it was thought possible that the same account opened at the French Treasury in the name of the Bank of Algeria, for the benefit of Algeria and Tunisia, could be utilized also for the advantage of Morocco. This, however, would have meant the liquidation of the Bank of Morocco or its subordination to the Bank of Algeria. The final solution was the establishment of a separate operation account between the State Bank of Morocco and the French Treasury in Paris.

This account, technically known as current account No. 2007 at the French Treasury, serves to credit to France or Morocco an unlimited amount of the respective currencies as needed for Treasury operations and for compensation of periodical balance of payment disequilibria between the two currency areas. This in turn permits the maintenance of a stable exchange rate under conditions of free transferability between Metropolitan francs and Moroccan francs.

The balance outstanding in the operation account can be favorable to the French Treasury, in which case it is said to be "payable in Rabat", or favorable to the State Bank of Morocco, in which case it is "payable in Paris". In other words, there can be Metropolitan franc balances or Moroccan franc balances outstanding. In both cases the balance of the operation account is productive of interest: the rate of interest, however, is progressive only in the event that the debtor is the State Bank of Morocco.

Of course not all payments between the two currency areas need to be cleared through the operation account. First, non-banking institutions and individuals in frequent business contact with both areas can, and in fact do, offset part of their debits and credits in Metropolitan francs against credits and debits in Moroccan francs. Second, in the case of banks, the same occurs with regard to payments made and received for their own account and for the account of their customers. Third, in the case of the Treasury of the French Protectorate, compensations take place between transfers of public funds to and from the metropolitan Treasury, directly, as well as for the account of other public institutions in France and in Morocco. In addition, the Moroccan Treasury operates a local system of postal money orders, connected with the metropolitan system, to which banks and non-banking firms and individuals can have access. Postal money transfers between France and Morocco are also entered into the network of Treasury compensations.

The balances which are not settled in any of the ways mentioned above are finally brought to the State Bank of Morocco which performs exchange operations for the account of its direct customers, of banking institutions and the Treasury. It regulates periodically the balance left after clearance by crediting obligatorily the operation account for the surplus of Metropolitan francs at its disposal. In the opposite case, when there is an excess of Moroccan francs seeking conversion into Metropolitan francs, the technical procedure for settling this difference has been as follows: a) the State Bank of Morocco uses the Moroccan francs to buy at the Post Office a money order payable in Metropolitan francs; b) this item, as mentioned before, is cleared with other items of the Treasury; c) the balance left is brought back to the State Bank which settles it through the operation account.1/

1/ Since 1950, however, the State Bank has been allowed in this second case also to take recourse directly to the operation account.

In addition, the operation account is also credited for the interest arising on its balance outstanding and is debited (or credited) for the amount of Metropolitan francs needed to satisfy (or in excess of) the minimum reserve requirements of the State Bank. A part of the State Bank legal reserve, consisting of Metropolitan franc assets, is held by the French Treasury in a separate account called the "provisional account".

A few points must be further stressed: (a) the French Treasury, in Paris and Rabat, can utilise the operation account for monetary and non-monetary operations. The State Bank, on the contrary, utilises the account primarily for exchange purposes, in order to assure convertibility at par between Moroccan and Metropolitan francs. Only for a few other well-defined operations, such as the already mentioned transfers from and to the provisional account and the crediting of interest, can the State Bank take recourse to the operation account; (b) convertibility at a fixed rate between Metropolitan and Moroccan francs also assures uniformity between the exchange rates of the two franc notes in relation to all other foreign currencies. In the absence of exchange controls and allocations, it would thus be always possible to take recourse in arbitrage operations on France or on Morocco when a difference arose between the exchange rates of the Metropolitan franc and the Moroccan franc in relation to a third currency. This, in turn, would automatically reestablish orderly cross-rates between the two currencies; (c) the progressive rate of interest on the State Bank debit balance in the operation account was intended to be an inducement for the State Bank to take appropriate action in order to readjust a fundamental disequilibrium in the balance of payments of Morocco. No analogous proviso was deemed necessary in the case of a Metropolitan Treasury debit position.

In practice the operation account remained unfavorable to the State Bank until 1940. The maximum year-end balance of 1,177 million francs had been achieved in 1937. Since 1940, however, the situation has reversed and the French Treasury debit rose to a year-end peak of 16,021 million francs in 1948 and then decreased to 4,502 million on December 31, 1950.

Year-End Balances of the Operation Account, 1924-1950

(millions of francs)

1924	177	(Payable in Paris)
1925	199	"
1926	408	"
1927	213	"
1928	349	"
1929	802	"
1930	620	"
1931	648	"
1932	280	"
1933	499	"
1934	877	"
1935	586	"
1936	1,164	"
1937	1,177	"
1938	1,022	"
1939	369	"
1940	1,418	(Payable in Rabat)
1941	2,717	"
1942	4,627	"
1943 1/	6,122	"
1944 1/	9,508	"
1945 1/	13,781	"
1946 1/	13,661	"
1947	15,016	"
1948	16,021	"
1949	10,559	"
1950	4,502	"

1/ Including the Operation Account B with the French African Treasury in Algier.

Source: State Bank of Morocco: Reports to the General Assembly.

SUMMARY

From 1907 to 1920 Hassani silver coins, together with Spanish money, remained legal tender in Morocco. With the establishment of the French Protectorate the circulation of French money became increasingly important and in 1914 notes of the Bank of Algeria and Bank of France were also recognized as legal tender.

Fluctuations of the exchange rate between franc and hassani peseta created serious problems. The attempt to stabilize the rate at 1 to 1 failed in October 1919 because the silver content of the hassani peseta became worth more than one franc.

In 1920 the hassani coins were demonetized and were withdrawn in exchange for notes of the Bank of Algeria and Bank of France. Subsequently (1920-1925) these notes were replaced with Moroccan francs, issued by the State Bank of Morocco.

The exchange rate between the Moroccan franc and the Metropolitan franc has been maintained stable, under conditions of unrestricted inter-convertibility, through the system of the operation account. This account open to both the State Bank of Morocco and the French Metropolitan Treasury, serves to credit to each other an unlimited amount of the respective currencies as needed for Treasury operations or for compensation of periodical balance of payments disequilibria between the two currency areas.

Chapter III. Credit Regulation in a Dependent Monetary System

1) Reserve Requirements of the State Bank: Problems and Solutions

The General Act of Algeciras provided that after the second year of operations the State Bank of Morocco should maintain a reserve equal at least to one-third of its note issue; and that at least one-third of the required reserve - that is to say 1/9 of the notes in circulation - should consist of gold or gold exchange ("monnaie or").

From December 1910 until the demonetisation of the Hassani currency in 1920, the notes issued by the State Bank were of the Hassani type, convertible into silver coins. These notes never attained a considerable circulation and actual reserves in coins were normally several times higher than the minimum required. Until 1914 franc notes available to the State Bank, being convertible into gold, could be included in the legal gold reserve.

After the State Bank began to issue Moroccan francs (November 1920), the rules of Algeciras were made applicable to the new monetary system by means of several liberal interpretations: presumably the drafters of Algeciras intended that the "complementary reserve" - that is, the portion of the whole legal reserve not covered by gold or gold exchange - should consist of silver or silver exchange. In 1920, however, a silver coverage of the notes of the State Bank would not have had much significance any more: in fact, the new Moroccan franc, as well as the Metropolitan franc, was in principle on a gold standard, although convertibility into gold was temporarily suspended. It was logical, therefore, that the entire reserve should consist of gold and/or gold exchange, when convertibility of the franc was resumed.

In the meanwhile, the State Bank tried to make up a "gold reserve" equivalent to at least 1/9 of its notes in circulation and consisting of gold, dollars and sterling. These assets were mostly bought in exchange for silver that gradually tended to disappear from the "complementary reserve".

As is shown in the following tables, the State Bank had practically no gold reserve in 1921 and the complementary reserve consisted of silver and of notes of the Bank of France and Bank of Algeria. In 1922 the State Bank was relieved from the inconvenience of keeping those notes in its vaults. They were instead deposited in an account at the French Treasury, the so-called "provisional account", which also bore interest. This account, as mentioned in the previous section, could be sustained by the "operation account"; when the actual reserve of the State Bank was above the minimum legal requirement, part of the surplus was periodically transferred from the provisional to the operation account.

Because of these arrangements, from 1921 to 1927 the total reserve requirement could always be satisfied. But only in 1925 was the State Bank able to establish a gold reserve above the legal minimum.

In June 1928 gold convertibility of the Metropolitan franc was reestablished at a new rate of about 60 milligrams of fine gold per franc;in September the Moroccan franc followed suit. The previous gold reserve was revalued upwards and Metropolitan franc availabilities became automatically gold exchange coverage. However, a convention between the local Treasury and the State Bank "reinterpreted", or better changed, the rules governing the reserve requirements of the State Bank. It was provided that at least 1/9 of the note issue should be backed by gold and the remainder, up to the amount of one-third of the circulation, by gold exchange.

From 1928 to 1936 the new reserve requirements were always satisfied and the provisional account could be abolished. The complementary reserve included first liquid availabilities of Metropolitan francs as well as dollars and sterlings. After the United Kingdom in 1931 and the U.S.A. in 1933 abandoned gold convertibility of their currencies, these could no longer be included in the complementary reserve as gold exchange. Consequently, since 1933 this reserve consisted exclusively of Metropolitan franc assets.

The maintenance of the legal gold reserve did not present any problem insofar as Metropolitan francs were convertible into gold.

Notes Circulation, Reserve Requirements and Actual Reserves of the State Bank of Morocco: 1921-1936

(in millions of francs)

End of the Year	Notes Circulation	Total Reserve Requirements (1/3 of circulation)	Total Actual Reserve	Gold Reserve Requirement (1/9 of circulation	Actual Gold Reserve	Actual Complementary Reserve
1921	140	47	72	16.7	- 1/	72
1924	279	93	108	31.1	16.4 1/	92
1927	447	149	155	49.7	87.8	67
1930	581	194	218	64.6	65.1	153
1933	580	193	199	64.4	106.5	92
1936	521	174	326	57.9	170.6	155

1/ Below the legal requirement

Composition of State Bank Reserves, 1921-1936

(in millions of francs)

End of the Year	Gold Reserve: Gold	Gold Reserve: Gold Exchange	Silver	Complementary Reserve: Notes of the Bank of France and Bank of Algeria	Complementary Reserve: Provisional Account	Complementary Reserve: Gold exchange	Complementary Reserve: Liquid Metropolitan Franc assets
1921	-	-	53	19			
1924	2	14.4	42		50		
1927	2	85.8	12		55		
1930	65.1					152.5	
1933	106.5					92.4	
1936	170.6						155

In October 1936 France, and a few months after Morocco, definitely abandoned gold convertibility. Since then the State Bank has tried to maintain a gold reserve equal to 1/9 of the note issue and a complementary reserve consisting mainly of Metropolitan franc assets.

It must, however, be noted that:

a) In addition to gold, dollars were included in the gold reserve during the years 1942-1947.

b) The provisional account was reestablished in 1943 and since then has continued to be in force. In 1948-1950, however, it remained inactive and has constantly shown an almost symbolic balance of one million francs.

c) A separate provisional account was held with the French African Treasury in Algier during 1943 and 1944, while Morocco was separated from the Metropole.

d) A new convention, agreed on June 30 between the Moroccan Treasury and the State Bank, established that the complementary reserve could also include liquid foreign assets as well as securities and discounted commercial paper in the State Bank portfolio. Accordingly, as is shown in the following tables, during the period 1947-1950 the complementary reserve included, in addition to Metropolitan franc assets and the balance in the provisional account, the following items: dollars[1] since 1948, other foreign exchange, securities, and discounted paper in 1949.

1/ Previously dollar assets had been included in the gold reserve.

Note Circulation, Reserve Requirements and Actual Reserves of the State Bank of Morocco, 1938-1950

(in millions of francs)

End of the Year	Note Circulation	Total Reserve Requirement (1/3 of circulation	Total Actual Reserve	Gold Reserve Requirement (1/9 of circulation	Actual Gold Reserve	Actual Complementary Reserve
1938	638	213	359	70.9	132.7	226
1939	1,072	357	391	119.1	148.4	243
1940	1,895	632	654	210.6	148.4	406
1941	3,542	1,181	1,318	393.6	267.4 1/	1,051
1942	5,529	1,843	1,954	614.3	490.3 1/	1,464
1943	7,068	2,356	2,422	785.3	490.3 1/	1,932
1944	10,510	3,503	3,540	1167.8	490.3 1/	3,050
1945	13,167	4,389	4,398	1463.0	490.3 1/	3,908
1946	14,887	4,962	5,234	1654.1	1359.2 1/	3,879
1947	19,107	6,369	7,115	2123.0	1461.2 1/	5,564
1948	24,151	8,050	9,338	2683.4	2217.7 1/	7,120
1949	26,721	8,907	8,955	2968.9	2217.8 1/	6,737
1950	29,926	9,975	13,704	3325.1	3671.4	10,032

1/ Below the legal requirement.

Composition of State Bank Reserves, 1938-1950

(in millions of francs)

End of the Year	Gold Reserve: Gold	Gold Reserve: Dollars	Complementary Reserve: Liquid assets in: Dollars	Complementary Reserve: Liquid assets in: Other Foreign Exchange	Complementary Reserve: Liquid assets in: Metropolitan francs	Complementary Reserve: Provisional Account: In Paris	Complementary Reserve: Provisional Account: In Algier	Complementary Reserve: Securities	Complementary Reserve: Bills Receivable
1938	132.7				266				
1939	148.4				243				
1940	148.4				406				
1941	267.5				1051				
1942	267.5	222.8			1464				
1943	267.5	222.8			1597	65	270		
1944	267.5	222.8			2091	65	894		
1945	267.5	222.8			1881	2027			
1946	753.0	606.2			578	3296			
1947	761.3	699.9		4580				1074	
1948	2217.7		732	5354		1		1033	
1949	2217.8		228	4095		1		1263	1150
1950	3671.4		1163		7545	1		1323	

With regard to the period 1936-1950, the gold reserve requirement was officially considered not satisfied from 1942 until the end of 1949. It must be pointed out, however, that in 1948 the gold reserve would have been above the legal minimum if it had included, as in previous years, dollar availabilities. Moreover, the evaluation in francs of the gold held by the State Bank in the years preceding 1950, although legally appropriate, had sometimes unrealistic results.

In 1947-1949, for instance, the rate applied for valuation of gold was based on the "legal" exchange rate of the dollar in terms of francs, a rate which has lost practically all significance since September 1949. The legal rate compares as follows with the official free rate and the "curb" rate:

End of the Year:	1947	1948	1949	1950
		(francs per dollar)		
Official selling rate or "legal rate"	119	215	(215)	(215)
Official free	-	318	349	350
"Curb" rate	330	518	391	384

The valuation of gold resulted as follows:

End of	Number of Kgs. of Fine Gold	Francs per Kg. of Fine Gold	Resulting value in millions of francs	Dollar 1/ Equivalent	Resulting Rate: Francs per Dollar
1947	5680.5	134.028	761.3	6,392,100	119
1948	9341.5	237.400	2217.7	10,511,700	211
1949	9342.1	237.400	2217.8	10,512,400	211
1950	9342.1	393.000	3671.4	10,512,400	349

1/ at 35 troy ounces of gold equal one dollar.

The example given above clearly indicates that changes from year to year of the franc value of non-franc assets do not always represent corresponding changes in the amount of gold, dollars, etc.

The reports to the General Assembly of the State Bank Board of Directors, and particularly those of the Committee of Auditors, always devote considerable space to the state of reserve requirements. This attention might be justified by legal considerations, but not by reason of a real economic function fulfilled by the legal minimum reserve.

Contrary to what Marty[1/] seems to believe, the legal coverage against the note issue cannot have the function of an exchange stabilizer. On this point, it is sufficient to quote M. H. DeKock:[2/]

"The obvious purpose of a central bank holding gold and foreign exchange would appear to be that of having at its disposal a reserve of international currency, with a view to meeting at any time an adverse balance of payments and maintaining the external value of its currency. To the extent, however, that a central bank is required by law to maintain a minimum reserve against its note issue or against both its note and deposit liabilities, its holdings of gold and foreign exchange is immobilised and not available for the purpose of balancing international accounts."

1/ A. J. Marty. Le franc marocain, monnaie satellite (Paris, 1951): pp. 137, 140, 142.

2/ M. H. DeKock. Central Banking (London, 1946): p. 95.

In the case of the State Bank of Morocco the function of exchange stabilizer is well fulfilled by the operation account, which is an inexhaustible source of reserves, able to assure under all circumstances inter-convertibility at a fixed rate between the Moroccan franc and the Metropolitan franc. On the contrary the assets included in the minimum legal reserve, at a given time, cannot be utilized for balancing international accounts except to the extent that eventually they become excess reserves: and this might happen only because note circulation has contracted or because previous reserve requirements have been released.

Again quoting De Kock, "the case for a legal minimum reserve really rests on its ultimate function of compelling the central bank to aim at maintaining such reserve, and thus at setting a limit to the expansion of currency and credit and the development of unsound economic conditions". In the case of the monetary system of Morocco, however, the State Bank reserve requirements do not fulfill properly even this ultimate function as "a general restraining influence and a disciplinary instrument." Considering the conditions under which reserve requirements have been working, the following conclusions can be drawn:

a) In several instances, when the application of reserve requirements would have forced the State Bank to contract its note issue, the monetary authorities of Morocco preferred to modify the relevant rules.

b) The maintenance of one-third coverage of the note issue does not imply any restraining effort on the part of the State Bank as long as the system of the provisional account is in operation.

c) To the extent that the State Bank avails itself of the permission to include assets of its portfolio in the complementary reserve, the concept of a central bank reserve is obliterated.

d) As far as the gold reserve is concerned, although it represents a small fraction of the note issue, its maintenance could perhaps have some restraining influence. However, this requirement has been breached quite often.

e) The fact that the principle of reserves applies to the note issue but that no legal coverage is required for State Bank deposit liabilities, limits the efficacy of the legal reserve provisos. However, in a country where note circulation represents a very large proportion of the total money supply, such limitation in itself does not seem to be over-important.

This does not mean that there are no restraining influences in the monetary system of Morocco tending to prevent an unsound expansion in the currency circulation of the State Bank. But these influences are mostly extraneous to the legal reserve provisions. They must instead be found, first, in the spirit of public responsibility which should inspire the policy of the State Bank and, second, in the progressive rate of interest of the operation account. An unsound expansion of credit tends to aggravate the balance of payments position of Morocco and to be therefore reflected in the operation account. And an increasing debit balance of the State Bank in this account tends to cut more and more sharply into the Bank profits.

After all, it must not be forgotten that although the legal minimum reserve of the State Bank is not an efficient disciplinary instrument in

Morocco, in a number of countries, including France and the United Kingdom, this type of instrument has been completely abolished or indefinitely suspended.

In the case of Morocco, such a course of action could not be taken without entering into open conflict with the rules on the subject of the General Act of Algeciras. This, and the consideration of the psychological effect of a legal reserve proviso, explains why the formal principle of a central bank reserve has been maintained in Morocco, while its economic basis has been almost emptied of significance.

2) Credit Institutions and Credit Control in Morocco

Considering private credit activities in Morocco, it must first be recalled that the State Bank of Morocco, besides its central banking functions, maintains credit relations with its own private customers as well as with banking institutions. At present, some twenty other important banks are represented in Casablanca, with more than one hundred agencies operating in French Morocco, in addition to the 10 agencies of the State Bank. Many of these banks are connected with or are branches of large French Metropolitan banks: "banques d'affaires", commercial banks, including nationalised ones, "Caisse d'Epargne", etc.1/ Finally, other credit institutions in Morocco include mortgage, investment, savings, cooperative and popular banks, and with mixed functions, "Sociétés Indigènes de Prévoyance", Postal Checks system, etc.

1/ In Spanish Morocco the bulk of the commercial operations is carried on by Spanish banks; the State Bank of Morocco has there five agencies, operating mainly in the fiscal field.

Together with French, Spanish and Moroccan banks, Swiss, British and other foreign banks also operate in the Sultanate of Morocco, particularly in the International Zone of Tangier.

On the whole, the credit setup of French Morocco can be considered as an overseas projection and an appendage of the Metropolitan system. This relationship between the credit systems of France and Morocco, together with the facts of close trade connections and of stable interconvertibility between the respective currencies, exclude the possibility of a real general credit policy proper to Morocco. Expansion of credit by local branches of Metropolitan banks is not limited by their existing reserves in Moroccan francs or by the credit that they can obtain from the State Bank of Morocco. On the contrary, their liquidity can be enormously enhanced by drawing on the central reserves of the Metropolitan banks with which they are connected; and these reserves are normally much higher than the current demand for credit in Morocco at the prevailing interest rates of the franc area. Consequently, although banks in Morocco can take advantage of the rediscount facilities of the State Bank and keep with it reserves in the form of deposits, no completely independent control of credit in Morocco can be developed on that basis. Each bank, including the State Bank of Morocco, can have their own credit policy in Morocco, but, so far as there is a <u>general credit policy</u>, it is necessarily that of Metropolitan France which applies to the whole franc area.1/

These conclusions should be somehow tempered to the extent that habits, imperfect knowledge of the market and imperfect mobility of capital resources, are taken into consideration. Under perfect conditions,

1/ See on the same argument, but with reference to the British colonies: "Monetary Systems of the Colonies", a series of anonymous articles which appeared in <u>The Banker</u> in 1948-1949, and were reprinted in 1950.

a change in the discount rate of the State Bank of Morocco in relation to other comparable rates in France and Morocco, would induce primarily a shift in the distribution of lending among banks in Morocco and only secondarily a possible increase or decrease in the total volume of credit. The shift of demand from/or to the State Bank might have some repercussions in the flow of short-term loan funds between Morocco and France: if, for instance, comparable banking operations in France become more profitable at a new lower discount rate of the State Bank, other banks in Morocco instead of following the State Bank might well turn back funds, as they become available, to their main offices in Paris.

In practice, however, there is not such perfect mobility of capital even between agencies operating in Morocco and the respective main banks in France. On one hand, "natural" factors make for some degree of localisation of credit, investment and banking activity, although no legal obstacles prevent the movement of capital within the franc area.1/ On the other hand, an agency, once established, must operate with reasonable continuity in order to maintain good relations with its customers and to cover at least its fixed overall costs. Consequently, there is no danger that a lowering of the State Bank rate below the comparable rate of the Bank of France will be followed by an overwhelming shift in the demand for credit from France to the State Bank of Morocco. But the shift might well occur within Morocco and, therefore, local banks would have to reduce proportionally their discount rates in order

1/ See on this general argument: G. Haberler. - Prosperity and Depression, Chapter 12 (New York, 1946) not to lose their local customers. In an analogous way, in case of an increase of the State Bank rate, other Moroccan banks - apart from possible institutional coordination of the measure - would also be induced to follow suit, in view of the resulting higher profitability of their operations. Reliance, although partial, on the local money market and on the State Bank for credit accommodations will provide the Moroccan banks with further reasons for following the State Bank discount policy.

In conclusion, the discount policy will have twofold effects in Morocco: ceteris paribus, it will influence both capital movements and local credit, as it used to happen under the gold standard system. However, from the balance of payments point of view the result of these influences might have trivial importance in comparison to that of capital movements determined by prospects of long-term investment, consideration of risk, fiscal factors, etc. As an instrument of control - via money supply - of the level of prices and economic activity in Morocco independently from the rest of the franc area, the State Bank policy of the discount rate can be effective only within very narrow limits, namely:

a) to the extent that the local demand for credit will be sensitive to changes in the discount rate;

b) to the extent that localisation of credit will prevent off-setting capital movements from/or to Morocco;

c) within the limits allowed by the cost and time necessary to move real resources within the franc area, that is to say, to the extent that a common level of prices and economic activity within the franc area cannot be achieved via trade.

An autonomous control of the money supply in an economy largely dependent on external relations cannot be very effective without an exchange rate policy. As long as stability between the Moroccan franc and the Metropolitan franc remains the basic feature of the present monetary system of Morocco, the internal bearing of the State Bank policy can be only marginal in relation to major external influences.

3) A Comparative Review of Dependent Monetary Systems

Inter-convertibility, at a stable exchange rate, of the currencies of France and Morocco facilitates trade and capital movements between the two countries. It also helps to maintain internal price stability in Morocco as long as: a) the Metropolitan franc is stable; b) the operation account provides compensatory financing for possible balance of payments disequilibria; and c) trade within the franc area can flow unhampered.

Problems and solutions of this kind are not peculiar to dependent or semi-dependent territories in their relations with the Metropole. Since the end of the gold standard fully independent countries have also been concerned with policies tending to maintain exchange stability and possibly inter-convertibility between their currencies and the dollar, or the pound sterling, or the currency of the country with which they entertain closest economic relations. The difference in the case of most non-self-governing territories is that inter-convertibility at a fixed exchange rate is here determined by authority of the Metropolitan country. Local monetary institutions in these territories have no discretion as far as the fact of interchange is concerned. It is an accepted fact for them, while it is a goal -

often competing with other objectives - for monetary authorities of independent countries.

As a consequence of legal rules and monetary devices the currency of most colonial territories is tied to the currency of the Metropole. This position of local currencies is recognised by different names: the Articles of Agreement of the International Monetary Fund refer more generally[1] to them as "separate currencies." Elsewhere they are called "dependent", or "secondary", or "subsidiary", or "satellite" currencies. Or else it might be said that the local monetary system is on an external Metropolitan-franc (or sterling, or dollar, etc.) exchange standard that cannot be changed by local decision. The rate at which the exchange of the dependent currency is actually fixed is not very significant from the point of view of the system mechanism. However, it has some psychological significance and it serves some practical purposes when the fixed rate, as in the case of Morocco, is 1 to 1.

It must also be stressed that, while most independent countries have an independent monetary system and most dependent countries have a dependent or satellite monetary system, there is no complete parallelism between political and monetary status. There are, for instance, dependent territories such as the Belgian Congo and French Somaliland, whose currency is not pegged to the currency of the Metropole, although their monetary policy is in various ways influenced by the Metropolitan

1/ The term "separate currencies" includes in fact also what could be called here "independent currencies of dependent territories".

country. There are, on the other hand, independent countries which do not have an independent monetary system: Panama, for instance, and Liberia where the bulk of the circulation is in the form of U.S. dollars, and Cuba, where both the peso and the U.S. dollar were until recently legal tender. Moreover, the picture is further broken down by the fact that (a) some dependent territories have their currency pegged not to the currency of the Metropole but to that of a third country; and (b) that countries technically independent are induced or forced to tie de facto their monetary system to that of another country, because of structural economic dependence or for political reasons.

Ending this digression, the institutional methods adopted in Colonial or dependent areas to eliminate the possibility of exchange instability with the Metropole and to assure an unrestricted flow of payments, varies from territory to territory, but can be gathered under four main groups:

1) The currency is the same in the dependent territory and in the Metropole or else the two currencies are indifferently accepted in both areas.[1] In this case obviously the problem of exchange does not arise at all and the colonial area can be considered from a monetary point of view as a region of the Metropole.

2) The local currency is automatically issued (or withdrawn) following the surrender (or utilization) of an equivalent amount of Metropolitan currency to (or by) a monetary authority performing only exchange operations. In such a case, the 100% reserve in Metropolitan

1/ Under these conditions, the currency cannot be considered "separate".

currency ensures the exchange of local notes at the given rate, while the local currency circulation expands or contracts in accordance with the surplus or deficit in the balance of payments of the territory.

3) The local currency is issued by a Banking Institution not only against the surrender of metropolitan currency but also against the surrender of other assets, including physical goods and debts, in the performance of normal banking operations in the territory. In this case, expansion (or contraction) of local currency in circulation can arise not only as a consequence of a balance of payments surplus (or deficit) but also because of an expansion (or contraction) of credit by the Bank of Issue. Minimum reserve requirements, if any, are always less than 100%. At the given rate of exchange, the eventual deficit of the balance of payments is usually met first by drawing on excess reserves in Metropolitan currency of the Bank of Issue and then through other means of compensatory financing, which <u>in this case are provided automatically</u>. In Morocco this function is fulfilled by the operation account.

4) The fourth method can be considered as a special case of the third one. The major difference consists in the fact that means of compensatory financing are not provided automatically. The Bank therefore must limit its credit in relation also to the possibility it has of finding eventual accommodations in Metropolitan currency in case of stringency. If the demand for exchange of local currencies into Metropolitan currency proves to be larger than the reserves that the local banks can mobilise the system might break down, usually with the consequence that free convertibility is suspended.

Examples for the first group are: a) the present systems of the U.S. territories, b) that of St. Pierre et Miquelon until 1942, and c) that of Malta until World War II. The second group is typical of the British colonies and is commonly known as the Currency Boards system.1/ The system of Morocco belongs to the third group, together with the system of Madagascar and that of Algeria-Tunisia up to the last World War. Finally, in the fourth group, are the monetary systems of those French Territories whose currency is provided by the Bank of West Africa, the Caisse Centrale de la France d'Outre-Mer and now the Bank of Algeria and Tunisia. The latter bank is nationalised and the Caisse Centrale is a public institution. Given their public status, these two banks can expect to find accommodation for extraordinary needs at the Bank of France or at the French Treasury. On the other hand, in the case of the Bank of West Africa, which is still a private profit institution although subject to public controls, the ability to raise loans in Metropolitan currency is not always certain and in fact convertibility had to be temporarily suspended in 1949 as a consequence of a massive outflow of capital from French West Africa to France.

Apart from obvious diversities between the first two systems, the main economic difference lies in the fact that only in the second system is there a counterpart of the local circulation which can be invested in gilt-edged securities. The interest accrued from this investment,

---

1/ Reference is here made only to the "orthodox" type of Currency Boards, such as the one operating in British West Africa. For a complete description, see: H. A. Shannon.-"The Modern Colonial Sterling Exchange Standard"- in International Monetary Fund, Staff Papers,- April 1952.

as well as the proceeds of a small commission charged by the Boards on their exchange operations, is transferred periodically (after deduction of administrative expenditure) to the revenue of the colonies concerned. In both systems, however, the amount of local currency in circulation must be "gained" through balance of payments surpluses.

The difference between the Currency Board system and the Bank of Issue system (that can be described approximately as the British and the French colonial systems respectively) might be more apparent than real when the financial operations of the local governments are taken into consideration together with the money-change operations of the Currency Boards, on one hand, and with the monetary and credit operations of the Banks of Issue on the other hand. To the extent, in fact, that British colonial governments can borrow funds in London at a rate of interest very close to that of gilt-edged securities and invest the local counterpart in the colonies, the subsequent monetary expansion does not cost more to the Colony than it would have cost under the Banks of Issue system. Until the local currency circulation remains increased by the amount of credit raised in London, interest paid by the Colonial Government and interest received by the Currency Board from Metropolitan investment of the loan proceeds, offset each other. If we assume, as a second step, that all or part of the local counterpart of the loan will be utilised outside the colony (to import, for instance, capital goods from the United Kingdom), the external <u>net</u> debitory position of the Colony deteriorates by that amount. But the same is true in the case of credit expansion by a Bank of Issue when interest is paid on compensatory financing eventually received. The difference will be that in the British case a) a metropolitan loan of the local government precedes the expansion of the local money supply; and b) the increase of net external indebtedness, after the second step, falls on the colonial government. In the French case a) the expansion of the local money supply can be caused directly by the Bank of Issue; b) the need of external financing arises only after the second step; and c) the increase of net external indebtedness falls on the Bank of Issue itself.

The advantages of one system in relation to the other depend on several factors. In general it can be stated that in a territory where the local credit system is little developed, colonial governments can easily obtain credit in the Metropole at low interest rates and their local investment plays an important role in the economy, the very sound and simple system of the Currency Boards might be preferable. On the other hand, in a relatively more advanced economy, it is preferable to have a specialized monetary and credit authority able to influence the local banking system towards expansion or contraction.

The sympathy shown by underdeveloped countries for the system of the Banks of Issue, with fractional reserves, is also due to the fact that their credit can provide directly the financial capital necessary for local investment. Since, however, real capital creation in an underdeveloped area tends to translate itself to a very large extent into an increase of imports, possibility of local credit expansion in a dependent monetary system rests ultimately on the actual or potential availability of external sources of financing. Other reasons for preference are that the Bank of Issue system allows greater flexibility of the money supply, tends to favor the development of a local money market and prepares the country for an eventual independent monetary system.

At this point a last question remains to be answered. Is an independent exchange rate policy - briefly, monetary independence - preferable to exchange stability?

If we assume that the Metropolitan currency is sound and the territory concerned is at a relatively low stage of financial development, the answer would probably be negative because under those conditions:

a) The importance of internal deflationary or inflationary tendencies to the economic growth of the territory would be trivial in relation to the availability of external capital. Consequently, the unfavorable effects that exchange instability might have on the flow of capital from the Metropole would be more relevant than the advantages of an independent credit policy.

b) Since in less developed areas many costs are fixed in foreign currencies and those fixed in local currency are usually less sticky, there would be little scope for changes in the value of money in order to facilitate adjustments in the cost structure.

c) Dependence on a strong currency will help to maintain the internal price level more stable.

When considering a territory at a higher stage of financial development, or when the weakness of the Metropolitan currency becomes a source of disturbance for the whole monetary area, monetary independence might become more or less desirable for the territory concerned, depending on a comparative appraisal of the different factors.

SUMMARY

Fractional reserve requirements have never exercised a strong restraining influence on the note issue of the State Bank of Morocco, because of liberal interpretations of the legal provisions on the matter, availability of special credit facilities from the Metropolitan Treasury (provisional account), and recently authority to include Moroccan assets in the Bank portfolio as legal coverage of the note circulation.

The main instrument available to the State Bank for the control of the money supply of Morocco is the discount policy. As under the gold standard, changes in the State Bank rate have some influences on both external capital movements and on local credit. However, as an independent instrument of credit control, the discount policy can only have marginal effects in relation to major external influences, as long as capital and trade can move unhampered and exchange stability remains mandatory within the franc area. Under these circumstances, the economy of Morocco is much more affected by the general credit policy applicable to the whole franc area than by some independent courses taken by the State Bank of Morocco.

In comparison with other dependent monetary systems, particularly the system of the Currency Boards, the French system of Banks of Issue with fractional reserve requirements allows more flexibility of the money supply and some independence from shifts in the balance of payments.

However, in territories where real investment largely depends on external sources of supply, the possibility of local credit expansion ultimately rests on the actual or potential availability of external sources of financing.

Some discretionary authority on monetary matters and eventually complete monetary independence become desirable when the credit and financial structure of a territory reaches a higher stage of development.

Chapter IV. Recent Monetary Problems and Policies

1) Composition and Determinants of the Money Supply (1939-1950)

The composition of the money supply of French Morocco, as resulting from the table below does not correspond exactly to the definition of the International Monetary Fund.[1] The concept is broadened to include, as monetary liabilities of the system, also time deposits held with banks and the Caisse d'Epargne. In this particular case[2] and for practical purposes, it was preferable to treat these deposits in the same way as demand deposits. Deposits held with the General Treasury presumably belong to public institutions not concerned with monetary management and could therefore be included in the money supply. Other minor discrepancies from the usual definition, such as the inclusion of currency held by banks and the local Treasury, are due to the lack of appropriate statistical data.

The ratio of currency to deposits, which was almost 1:2 at the end of 1938, went up very close to unity during the war period (1939-1945) and fell again to 1:2 and then to 1:3 during the postwar years (1946-1950). Total money supply increased by sixteen times during 1939-1945 and four times more during 1946-1950.

These two periods present quite different characteristics, war financing and development financing being respectively the main objectives pursued. The causes of monetary expansion also differ substantially: the main expansionary factor during the war was the balance of payments surplus of Morocco and the consequent increase of cash assets of the monetary system, while in the postwar period the main factor was the increase of bank lending.

1/ See: International Financial Statistics, January 1952.
2/ In Morocco both time and demand deposits are productive of interest and time deposits can de facto be withdrawn on demand.

FRENCH MOROCCO - COMPOSITION OF THE MONEY SUPPLY

1939-1950

(millions of francs)

End of the Year	Currency in Circulation 1/	Deposits 2/ held with: Banks 3/	Postal Checks System	General Treasury of the Protectorate	Caisse d'Epargne 4/	Total of Deposits	Total Money Supply (gross) Millions of francs	% of 1938
1938	638	831	126	—	203	1,160	1,798	100
1939	1,072	1,152	212	—	218	1,582	2,654	147
1940	1,895	1,834	395	—	229	2,458	4,353	242
1941	3,542	3,375	543	—	320	4,238	7,780	432
1942	5,534	4,393	1,021	29	438	5,881	11,415	634
1943	7,993	6,804	1,451	196	817	9,268	17,261	956
1944	10,510	8,858	1,808	534	1,288	12,488	22,998	1,278
1945	13,167	11,925	2,184	771	1,607	16,487	29,654	1,647
1946	14,887	24,198	3,136	2,802	1,650	31,786	46,673	2,596
1947	19,107	31,265	3,761	4,259	1,756	41,041	60,148	3,345
1948	24,151	46,999	6,187	2,818	2,165	58,169	82,320	4,578
1949	26,721	49,888	7,818	4,031	2,916	64,653	91,374	5,082
1950	29,926	67,920	9,086	n.a.	4,006	87,000(est)	116,900(est)	6,494

1/ Including local currency held by the French Moroccan Government and by credit institutions other than the State Bank of Morocco. This item corresponds to notes liabilities of the State Bank of Morocco, except for the years 1942 and 1943, when a small amount of notes of the Bank of Algeria were also represented in the currency circulation of French Morocco (5 million francs and 25 million francs, respectively, at the end of 1942 and 1943).

2/ Excluding interbank accounts and accounts of the French Government (Moroccan Treasury and Metropolitan Treasury); but including, under banks, deposit accounts held with the State Bank of Morocco, by foreign correspondents, Spanish Moroccan Government, Tangier Government, individuals, etc.)

3/ Including banks time deposits, which represent on the average 10% of total deposits.

4/ Time deposits.

Sources: Annuaire Statistique de la Zone française du Maroc, 1949.
Annuaire Statistique de la France d'Outre-Mer, 1939-1948.
Bulletin Mensuel de Statistique d'Outre-Mer - September - October 1951.
(The interpretative notes reflect the understanding of the writer)

Since September 1939 exchange control has been in force in Morocco, as well as in France, in relation to countries not included in the franc area. Within this group, on the contrary, the principle of unrestricted payments and trade remained practically unchanged. Once the necessity of an effective exchange control for Metropolitan France was admitted, the alternative solution - the maintenance of free payments between Morocco and countries outside the franc area - would have implied payments restrictions between Morocco and countries of the franc area. One way or the other, the principle of complete free trade recognized by the General Act of Algeciras could not be honored under the new circumstances.

Foreign exchange control became applicable also in relation to payments between French Morocco and the other two zones of the Sultanate. In Spanish Morocco the Spanish currency had been recognized as the only legal tender since 1936, and General Franco's Government had already introduced its own exchange control on payments with other areas of Morocco. In the International Zone of Tangier the Moroccan franc was the only legal tender from December 1936 until 1940, when the zone was occupied by Spain and both the Moroccan franc and the local Spanish peseta were recognized as legal tender. Exchange rates between these two currencies fluctuated and were determined, as were other rates, by the free market.

Under the French exchange control system, foreign exchange received by the Exchange Office of French Morocco is held in deposit with the State Bank of Morocco. Its release and utilization is subject to the authority of the Central Exchange Office in Paris. The latter office buys or sells foreign exchange from or to the local exchange offices of the franc area by crediting or debiting to them an equivalent amount of Metropolitan francs. The final allocation of foreign exchange resources to the different territories of the franc area should be in accordance with the respective needs and their recognized order of importance.

From the beginning of the war external trade relations of Morocco, and particularly imports from France, decreased substantially. In November 1942 Morocco was completely cut off from the Metropole and its economy was oriented towards the Allies and the territories of Free France. The administration of the State Bank was taken over by the Moroccan Government until the end of 1944. Monetary conventions between the State Bank and the French North African Treasury replaced temporarily analogous conventions previously agreed upon with the Metropolitan Treasury. After the liberation of France the economies of Morocco and of other French Overseas Territories were gradually tied again to the Metropole. The law of December 26, 1945, acknowledging that differences in price levels had developed during the period of disrupted relations within the franc area, gave new parities to the local francs of two groups of dependent territories. The Moroccan currency, however, as well as the currency of Algeria, Tunisia and of the "Departments d'Outre-Mer" in America, was maintained at parity with the Metropolitan franc.

All through the war period (1939-1945), the increase of the money supply of French Morocco was determined mainly by surpluses in the balance of payments. Military expenditures made in Morocco by the French Metropolitan Government, at first, and then by the French Committee of National Liberation and by the Allies, resulted mainly in an increase of Metropolitan franc assets of the State Bank of Morocco,[1] and in a parallel increase of its local liabilities in the form of notes or deposits.

A second factor, of comparatively minor importance, which tended to bring about an increase in the money supply, was the purchase by banks of Moroccan Treasury Bonds. These bonds were first issued in 1940: the portion held by banks (which can be presumed to have given rise to an almost corresponding creation of bank credit) and the total amount in circulation, are shown in the following table:

1/ The American authorities disbursed dollar funds to finance their military operations in Morocco and the State Bank provided in exchange Moroccan francs at a rate of 50 francs per dollar since February 1943. The dollar proceeds, with the exception of a small amount which was utilized later to complete the legal gold reserve of the State Bank, were turned over to the French African Treasury which credited the State Bank for an equivalent amount of Metropolitan francs. (See on this matter: U.S. Treasury Department. Preliminary Draft Report on Certain Financial and Economic Warfare Problems Handled by Treasury Representatives in French North and West Africa, (September 1943), p. 33 and following). Similar financial arrangements were made with the British authorities, the rate of exchange being 200 francs per pound.

Moroccan Treasury Bonds

(nominal value in millions of francs)

	Total Amount in Circulation	Amount held by Banks 1/
1940	64	n.a.
1941	2,143	n.a.
1942	4,112	2,048
1943	6,921	4,664
1944	7,606	6,186
1945	12,926	7,434
1946	27,460	16,938
1947	30,995	20,853
1948	40,462	26,025 (22,590) 2/
1949	31,595	n.a. (16,044) 2/

1/ Including State Bank of Morocco.
2/ Excluding State Bank of Morocco.

Source: Same as table on page 59.

During the war period, the additional purchasing power available in Morocco could not translate itself into new investment and increased imports. Physical bottlenecks kept down local production, with the consequence that the increase of money supply was reflected partly in a rise of prices, particularly intense in the field of real estate, and partly in an accumulation of idle balances, as well as in early repayment of debts in the private sector.

Under these conditions, it is not surprising that bank lending to business remained practically at the same level from 1939 until the end of 1945.

The principal monetary data available for the period 1939-1950 are brought together in the following table. The last column on the right shows the amount of the money supply, whose composition has been previously explained. The other columns show the principal elements of its counterpart, the assets of the monetary system. The totals for the assets shown in the table roughly correspond to the figures for the money supply, or monetary liabilities of the Moroccan system. 1/

1/ The amount of local currency held by the Moroccan Treasury and by credit institutions should be subtracted from the figures of the money supply shown in the table. The counterpart of this adjusted money supply should consist of the assets already reported in the table, plus or minus the following items appearing in the balance sheets of credit and monetary institutions operating in Morocco:

plus: (a) other foreign exchange holdings of credit and monetary institutions;
(b) earning assets of the Postal Check System and Caisse d'Epargne.

minus: net worth of all credit institutions (capital, undistributed profits, special reserves, etc.)

plus or minus: net non-monetary assets, or liabilities (book value of buildings, miscellaneous accounts, etc.)

(See on this subject: E. S. Shaw, Money, Income and Monetary Policy (Chicago, 1950)

French Morocco: Determinants of the Money Supply:
Principal Cash and Earning Assets of the Monetary System
1939-1950

(millions of francs)

End of the Year	Cash Assets	Earning Assets: Lending of Main Banks 1/ To Government	To Business	Total	Money Supply (gross)
	A	B	C	A + B + C	
1938	- 663 2/	n.a.	n.a.	...	1,798
1939	22	n.a.	n.a.	...	2,654
1940	2,072	n.a.	n.a.	...	4,353
1941	4,035	n.a.	714	...	7,780
1942	6,581	2,529	1,117	10,227	11,415
1943	8,544	4,908	988	14,440	17,261
1944	13,048	6,321	1,094	20,463	22,998
1945	18,179	7,784	2,405	28,368	29,654
1946	18,295	17,497	5,682	41,474	46,673
1947	21,057	23,089	11,447	55,593	60,148
1948	24,326	31,718	23,592	79,636	82,320
1949	17,101	n.a.	n.a.	...	91,374
1950	16,883	n.a.	n.a.	...	116,900 (est.)

1/ Including State Bank of Morocco.
2/ Net liability.

General Notes:

(A) Cash assets include: claims (+) or liabilities (-) of the State Bank of Morocco on the operation account (see table on page 31), plus assets considered as State Bank reserves (see table on page 39), with the exception of "bills receivable" and "securities" included in the reserves during 1947-1950. Example:

End of 1950 -	Operation account	+ 4,502
	Reserves	+ 13,704
	Securities included in reserves	- 1,323
	Total	16,883

(B) Lending of main bank to government includes: bank holdings of Moroccan Treasury Bonds and Equipment Bonds; other credit provided by banks on demand of the Protectorate Government.

(C) Lending of main bank to business includes all other loans made by the main banks operating in Morocco.

Sources of Data: See table on Page 59.

With the reestablishment of peace conditions, the revival of external trade relations and the rapid economic development of French Morocco, significant changes occurred in the determinants of the money supply. The data for 1946-1950 indicate, on one hand, a further increase in the money supply, and, on the other hand, additional bank lending to government, contraction in the cash assets of the monetary system and a strikingly sharp increase in bank lending to business.

The money supply increased on the average by one-half per annum during 1939-1945. In the period 1946-1950 the rate of increase slowed down to approximately one-third per annum.

The balance of payments, which had been the main expansionary factor during the war, worked, on the whole, as a contractive element in the postwar years. The value of the trade deficit increased, the reasons being mainly higher volume of trade at higher prices rather than a decrease in the physical volume of exports in relation to imports. Some increase in the value of the monetary system cash assets still took place in 1946, 1947 and 1948, due to an exceptionally high inflow of private capital into Morocco and also to revaluation of gold and foreign exchange assets in terms of francs. These gains were more than wiped out by the huge balance of payments deficits of 1949 and 1950.

The level of bank lending to business, which hardly increased during the war years, rose ten times during 1945-1948 and was probably the only major expansionary factor during 1949 and 1950. Medium term loans were particularly important. Since 1946 the State Bank of Morocco has been authorised to operate in this field. It provides directly medium term loans to public and semi-public enterprises. It also extends rediscount facilities for medium term credits provided by other banks in accordance with the general development plan of Morocco.

Another expansionary factor in postwar years, as in the war years, was bank lending to the local government in various forms. In 1946-1950 the main purpose of government borrowing was the financing of public development projects. 1/

1/ Long term Treasury Bonds, issued in 1944 and 1945, were for the purpose of financing development programs as soon as conditions would have permitted their implementation. Since 1948 the Moroccan Government issued also special Equipment Bonds, repayable in four years, at 3-1/2% (discount basis) per annum. The total of outstanding loans to the government by banks of Morocco was composed as follows, in the period 1946-1949:

	End of 1945	1946	1947	1948	1949
	(millions of francs)				
Treasury Bonds	7434	16938	20853	26025	16044
Equipment Bonds	-	-	-	720	1372
Other lending	350	559	2236	4973	n.a.
	7784	17497	23089	31718	...

Summary Table
French Morocco - Components and Determinants of the
Money Supply in Percentages of Total Money Supply (gross); 1939-1950

End of the Year	Components			Determinants			
	Currency	Deposits	Total	Cash Assets	Bank Lending to: Government	Bank Lending to: Business	Total
1938	35	65	100	- 37	n.a.	n.a.	...
1939	40	60	100	1	n.a.	n.a.	...
1940	44	56	100	48	n.a.	n.a.	...
1941	46	54	100	52	n.a.	9	...
1942	48	52	100	58	22	10	90
1943	46	54	100	49	28	6	84
1944	46	54	100	57	27	5	89
1945	44	56	100	61	26	8	96
1946	32	68	100	39	37	12	89
1947	32	68	100	35	38	19	92
1948	29	71	100	30	39	29	97
1949	29	71	100	19	n.a.	n.a.	...
1950	26	74	100	14	n.a.	n.a.	...

Source: Tables on pages 59 and 65.

2) External Factors Affecting the Monetary System of French Morocco

In the previous section mention was made of the balance of payments of Morocco with regard to changes in the cash assets of the monetary system. An attempt will here be made to bring together the available data and to evaluate the order of magnitude of the principal items determining surpluses and deficits in the balance of payments.

The accounts between French Morocco and the rest of the world have many characteristics in common with a regional rather than an international balance of payments. The definition of resident must necessarily be broadened in relation to that usually adopted[1] for strictly international accounts. For instance, branches of French firms operating in Morocco are considered as Moroccan institutions, and a transfer of funds by a French resident from his deposit account with a bank in Paris to his deposit account with an agency of the same bank in Casablanca is simply treated as a flow of capital from France to Morocco, no statistical account being taken of the equivalent increase of Moroccan liabilities to France.

The heading "residual" or "errors and omissions" in the following table merits some special comment. The main transactions affecting this item are:

a) Current official payments to Morocco for personnel and material.

1/ See: Balance of Payments Yearbooks of the International Monetary Fund.

b) Official grants and loans, excluding compensatory financing, but including special official financing for development purposes.

c) Private capital movements.

Secondary importance must normally be attributed to the net debit or credit resulting from other transactions such as those under "Travel", "Tourism", etc. Finally, errors are likely to arise particularly as a consequence of the inaccurate system of customs valuation.

French Morocco - Elements of the Balance of Payments, 1939-1950

(millions of francs)

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
1) Exports	-1778	+2021	+2539	+2070	+1509	+2665	+3902	+10395	+18323	+37232	+53516	+66403
2) Imports	-2256	-2142	-1947	-3104	-2143	-3609	-6782	-17529	-33383	-74891	-103321	-115233
3) Balance on Merchandise Account	- 478	- 121	+ 592	-1034	- 634	- 944	-2880	- 7134	-15060	-37659	-49805	-48830
4) Movement of the Operation Account	- 653	-1787	-1299	-1910	-1495	-3386	-4273	+ 720	- 1955	- 1005	+ 5462	+ 6057
5) Movement of Official Reserves	- 32	- 263	- 664	- 636	- 468	-1118	- 858	- 604	- 807	- 2264	+ 1763	+ 4161
6) Adjustment for revaluation of gold & foreign exchange reserves	+ 17	-	-	-	-	-	-	+ 950	-	+ 1200	-	+ 1500
7) Official Compensatory Financing	- 668	-2050	-1963	-2546	-1963	-4504	-5131	+ 834	- 2762	- 2069	+ 7225	+11718
8) Residual	+1146	+2171	+1371	+3580	+2597	+5448	+8011	+ 6300	+17822	+39728	+42580	+37112

Sources of Data: See Tables on pages 31, 39, 59 and 65.

Notes:

Item 1) Exports are valued on a f.o.b. basis.

Item 2) Imports are valued on the basis of the price of goods in the port of arrival (practically c.i.f.)

Item 3) The balance on merchandise account can be considered inclusive of freight and insurance costs paid for imported goods.

Item 4) Increase (+) or decrease (-) of the State Bank liabilities or else increase (-) or decrease (+) of the State Bank claims, as resulting from the balance outstanding of the operation account (see Table on page 33.)

Item 5) Increase (-) or decrease (+) of the assessed franc value of assets considered as reserves of the State Bank of Morocco (see table on page 39), with the exception of bills receivable and securities included as reserves in 1947-1950.

Item 6) The adjustment takes account of the revaluations, in terms of francs, of gold, dollars and foreign exchange reserves, as assessed in the State Bank balance sheets.

Item 8) Represents primarily inflow of private capital, official development funds and expenditures of foreign governments. (See text)

In the period 1939-1945, financing of military and other public expenditure in Morocco by the French Metropolitan, France Libre and Allied Governments was by far the most important factor making for the residual. Private capital movements, on the contrary, were of secondary importance, except perhaps in 1939 and in 1945. Offsetting factors were: the floating of Metropolitan Treasury Bonds in Morocco during 1939-1940; the borrowing in Morocco of the National Committee in 1942; and the issue in 1943 of a special African loan for France, of which frs. 1.5 billion were subscribed in Morocco. In 1941, local financing of public expenditure was particularly high in relation to external public financing.

In the postwar period 1945-1950 private capital inflows into Morocco were the main factor making for the large residuals. Public metropolitan financing of the Moroccan development plan was considerable only in 1949-1950: in these years it amounted respectively to frs. 10.3 billion and frs. 13.9 billion. The net inflow of private capital from France into Morocco was mainly for direct investment. However, short-term capital movements of a speculative nature were also important, particularly in 1948. Flights of capital towards Morocco were originated by rumors of a possible appreciation of the Moroccan franc in relation to the Metropolitan franc. In October 1948 the proportion assumed by these speculative movements induced the French Government to introduce controls on transfers of funds to Morocco. These controls were abolished in February 1949 when some reverse movements started to take place. On the whole, however, capital tends to flow to Morocco in larger amounts whenever the Metropolitan franc gives signs of weakness or the international situation deteriorates. Long-term capital movements towards Morocco are induced not only by genuine investment opportunities, but also by the lighter taxation in Morocco in relation to France, expectation of better protection in case of a major war, and consideration of possible access to the free market of Tangier.

The importance of private Metropolitan investment in Morocco is illustrated by the period 1949-1950 during which probably more than one-half of the trade deficit of almost frs. 100 billion was financed through the flow of private capital to Morocco. "Hot money" movements were not considerable except, presumably, after the outbreak of hostilities in Korea. Moroccan receipts due to current public expenditure of the Metropole, such as salaries of French officers in Morocco, maintenance of troops, etc. probably were equivalent to other net payments by Morocco on service account. Other offsets of the trade deficits were Metropolitan public financing of the investment programs and liquidation of official reserves, which amounted respectively to one-fourth and one-fifth of the trade deficit.

The reserves utilised were primarily the credits of the State Bank in the operation account which declined during the two years 1949-1950 from frs. 16 billion to frs. 4.5 billion. Data for 1951 are not available, but it is possible that the construction of the American air bases in Morocco has stopped the drain on the State Bank reserves and perhaps caused again a surplus in the Moroccan balance of payments.

Lack of statistical data does not permit a presentation of balance of payments of Morocco by currency areas, showing to which extent Morocco has been a source of or a drain on the franc area pool of foreign exchange reserves. Only in general terms can it be said that during the war period payments by the Allies in Morocco gave rise to net dollar and sterling receipts; and that in postwar, on the contrary, Morocco had net deficits with countries outside the franc area, particularly with the United States. The deficits were covered through release of foreign exchange available to the Metropole, including dollar allocations under the European Recovery Program.

The following table shows the pattern of trade of Morocco by major currency areas for the years 1946-1950.

French Morocco - Composition of External Trade by Areas

1946-1950

(millions of francs)

	Countries outside the franc area: Dollar Area	Countries outside the franc area: Other	Countries outside the franc area: Total	Countries of the Franc Area	All Countries
Imports					
1946	5,211	1,691	6,902	10,626	17,529
1947	7,201	3,445	10,646	22,737	33,383
1948	13,696	11,165	24,861	50,030	74,891
1949	20,308	12,579	32,887	70,434	103,321
1950	20,191	16,579	36,770	78,463	115,223
Exports					
1946	210	2,526	2,736	7,659	10,395
1947	303	3,797	4,100	14,222	18,323
1948	1,352	7,441	8,793	28,439	37,232
1949	1,394	20,334	21,728	31,788	53,516
1950	1,394	34,133	35,527	30,876	66,403
Trade Balance					
1946	-5,001	+ 834	- 4,167	- 2,967	- 7,134
1947	- 6,898	+ 353	- 6,545	- 8,515	-15,060
1948	-12,344	- 3,724	-16,068	-21,591	-37,659
1949	-18,913	+ 7,754	-11,159	-38,646	-49,805
1950	-18,797	+17,554	- 1,243	-47,587	-48,830

Sources: See Table on page 59

It is obvious that changes from year to year in the amount of transactions expressed in francs do not necessarily reflect "real" changes. 1/ Stability of the Moroccan franc in relation to the Metropolitan franc does not also mean stability in relation to the dollar, the sterling pound, etc. or in terms of a given quantity of goods and services, as long as the respective value of the Metropolitan franc varies.

The main changes in the rates of the Metropolitan and Moroccan franc in relation to the dollar and the pound sterling were the following:

Value of the Dollar and Pound Sterling in Terms of Francs, 1920-50

(Prevailing official rates)

	Francs per dollar	Francs per sterling
1920	16.88	59.78
1928	25.524	124.213
1936	20.15	166.04
1939	43.80	176.625
1942 (November)	75	300
1943 (February)	50	200
1945 (December)	119	480
1948 (January)	214	864
1948 (October)	272	1062
1949 (October)	349	977

1/ Indices of volume of French Moroccan imports and exports, for instance, changed as follows in 1939-1948:

(1938 = 100)

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Exports	93	62	38	46	32	44	77	127	169	201
Imports	133	114	95	58	27	41	64	119	197	260

Source: Annuaire Statistique de la Zone Française au Maroc, 1947-1948.

In the period 1920-1939 adjustments of the exchange rates of the franc in relation to the dollar and the sterling were primarily the consequence of world wide economic and monetary phenomena: the great depression of 1929, reestablishment and abandonment of the gold standard, competitive depreciations, etc. On the whole, however, the franc was a relatively strong currency and, therefore, the tie of the Moroccan franc could only be considered as an advantage and a source of stability for the economy of Morocco.

Wartime inflation was accepted in Morocco as an inevitable evil. The devaluation of the African franc, agreed upon in February 1943 by the Government of France Libre with the United States and Great Britain, still over-valued the Moroccan franc in terms of purchasing power parities and of prevailing black market rates. In a period of inelastic demand, during which military needs and physical possibilities rather than prices determined the volume of current transactions, over-valuation of the franc could only be to the advantage of Morocco. However, the return to more realistic rates, after the end of the war, resulted in increased hardship.

The monetary reform of December 26, 1945 disappointed the hopes of those in Morocco who thought they would be able to buy new equipment in the dollar area at the previous low rates of exchange, and to sell their products to France at the actual high prices. The opponents of the devaluation, overlooking the foreign exchange and particularly the dollar problem of the franc area, found supporting arguments in the fact that: (a) during the war Morocco had considerable net receipts in hard currency; and (b) that the currency of some other members of the franc area had not been devalued in the same proportion as the Metropolitan franc.

The following devaluations of the franc in January and October 1948 and in April and September 1949 were bound to raise similar complaints and criticisms. As a matter of fact, the criticisms seemed to put the blame for price increases in Morocco on the devaluations; while it would seem more logical to blame the inflation which spread from France into the franc area, and to consider the devaluations as a necessary consequence. From the viewpoint of Morocco the need for a proper rate of exchange, tending to equilibrate payments and receipts in the external accounts, is not self-evident because the system of the operation account provides the country with theoretically unlimited compensatory financing, and the availability to Morocco of hard currencies is not determined by corresponding earnings of Morocco alone.

Similar to what happens within the same national territory, the spreading of local inflationary and deflationary trends over the whole franc area is a structural consequence of the fact itself that the area is a monetary and economic unit. Any attempt to insulate a single territory from unfavorable developments in other parts of the area must necessarily tend to break or undermine that unity.

The relative changes in the price levels of France and Morocco in the periods 1939-1941 and 1945-1950 (when the economic relations between the two countries were not cut by reason of war events) are illustrated by the following table. The imperfect parallelism between the two series of price indices can be explained in part by time lags and changing costs for moving goods and economic resources between the two countries. But another important cause of discrepancies must certainly be the different statistical composition of the two indices, which makes the two series only very roughly comparable.

Price Level and Money Supply in France and Morocco, 1939-1941 & 1945-50

(Indices)

	Wholesale Price Indices (Average of the Year)		Money Supply (End of the Year)	
	France (Paris) 1/	Morocco 2/	France 3/	Morocco 4/
1938			100	100
1939	100	100	...	147
1940	132	130	...	242
1941	163	216	...	432
1945	358	450	527	1,647
1946	619	801	610	2,596
1947	945	1,326	872	3,345
1948	1,629	1,998	1,139	4,578
1949	1,824	2,091	1,424	5,082
1950	1,971	...	1,625	6,494

1/ Source: IMF International Financial Statistics (basis 1937 = 100)
2/ Source: Annuaire Statistique de la Zone Française du Maroc, 1949 (index of 70 commodities)
3/ Source: IMF International Financial Statistics
4/ See Table on page 59.

The indices of the money supply for France and Morocco in the table above contrast sharply with the similarity of price changes in the two countries.

Expressed in dollars, the money supply of France approximately doubled during the period 1939-1950, while that of Morocco increased by eight times. The fact that in Morocco the percentage increase of the money supply was four times higher than in France, while the ratio of the respective price levels did not change substantially, testifies primarily to the rapid development of Morocco during the twelve year period.

3) Ability of the Monetary System to Cope with the Economic Requirements of Morocco

"The goal of our economic policy in the colonies must be the development of the productive potentialities of the overseas territories and the increase of their wealth, in order to assure to the Africans a better life..." In these terms was expressed the final recommendation of the Conference of Brazzaville (January-February 1944).

The object of this section is to appraise the extent to which monetary system of French Morocco has been able to serve that goal: which are the advantages and which are the shortcomings of the system in view of a rapid and well balanced development of the country.

The tie between the Moroccan franc and the Metropolitan franc, as long as it remains firmly established, eliminates exchange risks and facilitates the flow of trade and capital between France and Morocco. The advantages Morocco derives from it are important in view of the following facts:

(a) External trade is essential to the development of Morocco; and France, for historical, geographical and economic reasons, is the major trade partner of Morocco.

(b) Several factors make for a net flow of private capital from France to Morocco, under unrestricted conditions.

(c) Local savings of Morocco alone are not sufficient to assure a reasonable rate of development to the country.

In relation to other systems which also assure inter-convertibility between the local currency and the Metropolitan unit, such as the Currency Boards, the system of the Bank of Issue presents some additional advantages. It allows more elasticity in the money supply, by making the currency circulation not directly dependent on the balance of payments. It was pointed out before that, assuming perfect mobility of capital and resources and stable exchange rates within the franc area, it would be impossible to conceive of any general credit policy proper to Morocco. Since, however, the first assumption is far from being realised some room remains for local monetary management at the margins of the general policy adopted for the whole franc area. In promoting expansion or contraction of the money supply, the State Bank of Morocco normally cooperates with other banks and the Government, the principal aim being that of moderating local fluctuations and of smoothing the effects of external disturbances. The State Bank also plays an important role in promoting the development of an active money market, in mobilising local savings and channeling credit into the most desirable investments.

The third link of the system, which allows franc inter-convertibility and some independence of the currency circulation from the balance of payments, is the operation account. The automatic compensatory financing provided by the system gives more assurance of continuity in the implementation of development plans in Morocco. Finally, the amount of foreign exchange allocated to Morocco for its import needs outside the franc area is normally higher than the corresponding earnings of the country or, at least, than those gained through current trade transactions.

The main cause of recent complaints on the part of Morocco about the working of the monetary system stems out of the postwar weakness of the franc.

The monetary and economic ties of Morocco with France allows the spreading and dampening of local economic fluctuations. This fact assures more stability to Morocco when its economy would tend to be less stable in relation to the rest of the area. But when the source of disequilibrium is mainly outside Morocco, as it seems to have been the case in the postwar period, the country must share the external disturbances. And while the spreading of inflationary or deflationary trends which originated in Morocco pass almost unnoticed into the rest of the franc area, the larger proportions of the economy of France make the disturbances from this source a factor of primary importance for the French overseas territories.

The system of the Bank of Issue presents the disadvantage - if we may call it so - that it does not absolve the monetary authorities of French Morocco from the responsibility of policy decisions. It is a more refined instrument in comparison to the Currency Boards System, and it is preferable for relatively developed colonial economies, such as that of French Morocco. Like all refined instruments, however, it must be handled by expert hands in order to produce good results.

Finally, the liberal system of the operation account necessarily implies, as its counterpart, a high degree of direct control on the part of France over the economy of Morocco. In the British colonies, in contrast, a more rigid system of monetary dependence allows a higher degree of decentralization in formulating local economic policies.

Suggestions to modify the present monetary setup of French Morocco have been advanced from time to time by the press and certain groups in Morocco. Political considerations are not extraneous in the formulation of the different solutions proposed, which range from the suggestion of a simple change of the rate of the Moroccan franc in relation to the Metropolitan franc (décrochage") to that of complete independence of the Moroccan monetary system with direct or indirect implication of political independence.

A change in the exchange rate between the Moroccan franc and the Metropolitan franc is a delicate operation which must be used with caution. The change, in fact, not only creates some immediate problems, but it can also give rise to the expectation that the operation might be easily repeated or reversed in the future, thus endangering the confidence on the stability of the rate. The large outflow of capital from French West Africa in 1949, due to rumors that the local franc would be brought back to parity with the Metropolitan franc, is an illustration of these dangers.

A definitive break of the Moroccan franc from its peg with the Metropolitan franc is a solution which has more far reaching effects than some of its proponents have envisaged. Such action would necessarily result in the abolition of the operation account and the exclusion of Morocco from the franc area system, with the consequence that private capital movements between France and Morocco would be restricted and that the Moroccan monetary authority would have to face directly the problem of the international value of the currency.

Without the full contribution of private French capital the rate of growth of the Moroccan economy would fall drastically, unless public loans and grants of France to Morocco were not only continued but increased or some other foreign source of financing could be tapped. From the standpoint of price stability, the independence of the Moroccan franc, if conceived as a remedy against the spreading of the Metropolitan inflation, might well prove to have worse effects than the illness itself.

In the present situation the economic advantages that Morocco derives from its monetary dependence seem certainly greater than the relative disadvantages. Should a complete change in the economic and political position of Morocco take place, the terms of the problem might be radically different. Or else the economic cost of monetary independence might still be considered as a fair price paid for political independence. On both subjects economic analysis has little to say.

SUMMARY

During 1939-1950 the money supply of French Morocco increased by sixty-five times. The main expansionary factors were balance of payments surpluses during the war period and bank credit in postwar.

During 1939-1945 balance of payments surpluses were mainly the consequence of foreign military expenditures in Morocco. In 1946-1950 a large deficit in trade account was financed primarily by an inflow of private Metropolitan capital and, to a less extent, by Metropolitan public aid for development and by drawing on previously accumulated reserves.

In 1950 prices in Morocco, as well as in France, had risen twenty-fold from the average level of 1939. In real terms, therefore, the Moroccan money supply had expanded approximately fourfold; this testifies mainly to the rapid growth of the economy.

Such a rapid economic development would not have been possible without the peacetime contribution of private French capital and its channeling into productive investment. This inflow of capital is determined not only by genuine investment opportunities, but also by light taxation in Morocco in relation to France, expectation of better protection in case of a war in Europe and by strictly speculative motives. The abundance of financial capital maintains relatively low interest rates in Morocco and favors the economic development of the country.

Since 1945, the main reason for complaints on the part of Morocco has been the spreading of inflation from France into the rest of the franc area. This is a structural consequence of the fact that the area is an economic and monetary unit. A break of the monetary link could insulate Morocco from inflationary trends originated in France. But this measure would necessarily be followed by restrictions on capital movements from France to Morocco. Would Morocca then be able to maintain its present rate of development without other new sources of external financing?

BIBLIOGRAPHY

A. - Official Publications

Banque d'Etat du Maroc. Rapports à l'Assemblée Générale Ordinaire (from 1907 to 1950)

Bank of International Settlements. Statuts de la Banque d'Etat du Maroc

Morocco - Service Central des Statistiques. Annuaire statistique de la zone française du Maroc (1947-48; 1949)

France - Service Colonial des Statistiques. Annuaire statistique de l'Union française d'Outre-Mer (1939-1949)

France - Service Colonial des Statistiques. Annuaire statistique des possessions françaises - Années antérieures à la guerre (Edition provisoire 1944-1946)

Gouvernement Chérifien - Protectorat Français au Maroc. Annuaire économique et financier (1948)

France - Ministère de la France d'Outre-Mer. La Monnaie et le Crédit dans les Territoires d'Outre-Mer (1950)

France - Statistique générale. Annuaire statistique abrégé (1949)

France - Ministère des Finances. Balance des payements entre la zone franc et les pays étrangers (1946-1950)

U.S. Treasury Department. Preliminary draft report on certain financial and economic warfare problems handled by Treasury representatives in French North and West Africa (1943)

France. Bulletin Mensuel des Statistiques d'Outre-Mer (monthly)

International Monetary Fund. International Financial Statistics (monthly)

United Nations - Economic and Social Council. Review of Economic Conditions in Africa (1951)

France - Conseil économique. Définition d'une politique économique, sociale et monétaire d'ensemble des pays de l'Union Française (1950)

France - Commission des Investissements. Reports (1946-1950)

B. - Selected Works Dealing with or Making Reference to the Monetary System French Morocco

Jaeger, Urbain. La Banque d'Etat du Maroc (Paris, 1911)

De Roux, J. La réforme monétaire du Maroc (Paris, 1928)

Marty, A. J. Le Franc marocain; monnaie satellite (Paris, 1951)

Mérigot, J. G. Le Franc 1938-1950 (Paris, 1950)

Dieterlen, Pierre. The Monetary Problem of France (New York, 1948)

Institut de Science Economique Appliquée. L'investissements dans les pays dépendents (Paris, 1951)

C. - Selected General Theoretical Works and Publications on Related Subjects

De Kock, M. H. Central Banking (London, 1946)

Shaw, E. S. Money, Income and Monetary Policy (Chicago, 1950)

Haberler, G. Prosperity and Depression (New York, 1946)

League of Nations. International Currency Experience (1944)

The Banker. Monetary Systems of the Colonies (London, 1950)

Shannon, H.A. "The Modern Colonial Sterling Exchange Standard" in Staff Papers, April 1952, International Monetary Fund

Hartland, Penelope C. Balance of Payments of New England (Providence, 1950)

Wallich, H.C. Monetary Problems of an Export Economy - The Cuban Experience 1914-1947 (Cambridge, 1950)