

Memorandum to Cabinet by the
Hon. Minister of Finance, Customs and Port

Introduction of a Decimal Currency System

A Committee was set up to study the implications of the introduction of a decimal currency system. The Committee has reported that decimalisation would be very advantageous for Malta because it would enable the use of a common basis for monetary and non-monetary calculations. In ordinary arithmetic we count in tens; in £. s. d. calculations we count in twelves, twenties and tens. Decimalisation will enable us to use base ten throughout and, as a result, money calculations will be quicker, easier and less prone to error.

The Committee considered that, in order to maximise the benefits from the introduction of a decimal currency, the system to be adopted -

- (a) must be simpler than £. s. d.;
- (b) must have a high value major unit suitable for business transactions and a low minor unit to suit shopping transactions;
- (c) must not be liable to be spoilt by inflation over the years;
- (d) must be easily related to £. s. d.;
- (e) must cause a minimum rise in prices;
- (f) must permit local users to make the most advantageous use of business machines.

The Committee accordingly examined four systems in detail - the 8s. 4d. - cent, £ - mil, £ - cent (with a $\frac{1}{4}$ cent) and 10s - cent (with a $\frac{1}{2}$ cent).

The 8s. 4d. - cent system while satisfactory from some aspects, would sever all contacts with £. s. d. except for penny amounts. The 1 to 2.4 ratio of its major unit to the existing £

would render mental conversion difficult and be a source of annoyance to the business sector for many years. Conversion of existing shopping prices, would be equally difficult to the average person even assuming knowledge of the multiplication tables. Existing coins would not have convenient decimal equivalents and this factor alone would create a major problem during the transition period following the Conversion Date. The Committee had therefore to discard this system.

With regard to the £ - mil system, the Committee observed that, while this system retained the £, which is an advantage, it lacked simplicity and, like all three-place systems, it would entail the use of uncomfortably large numbers in many day-to-day transactions: 3s 9d. would be expressed as 187 mils and 18s. 11d. as 996 mils. Mental arithmetic with such figures would represent a serious handicap to all sectors of the community: this great disadvantage would continue so long as the system remained in use. The Committee did not consider this system suitable for Malta. Moreover, it was observed that mils system are very unpopular and their use is restricted to a few countries along the Mediterranean littoral.

The Committee narrowed its choice to two systems - the £ - cent (with a $\frac{1}{4}$ cent) and the 10s - cent (with a $\frac{1}{2}$ cent).

The £ - cent system has many advantages: it is a cent system; it retains the £, 2s and 1s: it is easier to learn than either the 8s. 4d. - cent or the £ - mil. No changes will be necessary in mathematics text books and financial records stated in pounds only. However, its adoption will entail the use of three fractions - $\frac{1}{4}$, $\frac{1}{2}$ and $\frac{3}{4}$ cents. These fractions will render the system cumbersome and much less satisfactory than the 10s system insofar as simplicity is concerned. The $\frac{1}{2}$ cent under this system is equivalent to 1.2d which is too high a value to be ignored in accounting. Business machines will have to be provided with a $\frac{1}{2}$ cent key and purchases of these non-standard machines will have to be restricted to the United Kingdom market and those

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countries manufacturing non-standard machines for that market. It was therefore concluded that the £ - cent $\frac{1}{2}$ was inferior to the 10s system.

The Committee unanimously recommended the 10s - cent $\frac{1}{2}$ as the most appropriate system for Malta. It is simple and consistent: it provides units suitable for both large and small transactions: it retains the 6d (5c), 1s (10c) and 2s (20c). The $\frac{1}{2}$ cent, being nearly equivalent to the present halfpenny, will be restricted to shopping transactions and the system will therefore be non-fractional for accounting purposes. This represents a great advantage because local business machine users will have access to the world market for standard cent machines with prospects of cheaper prices and the latest technological developments. A great merit of this system is its easy relationship to £. s. d.: a factor which will facilitate conversion problems and enable the public to learn the new system without much difficulty. The 10s system has characteristics which are universally acceptable to £. s. d. countries. In fact South Africa, Australia, New Zealand, Zambia, Ghana, Jamaica and Sierra Leone have adopted it or are in the process of doing so.

The Committee did not select a name for the new major unit (10s). The choice has been left to Government. It was however, suggested that the new name should be dignified, short and associated with Maltese life or history.

It was further recommended that the introduction of the new currency should be phased out in three stages: a preparatory period of not less than 18 months following a decision by Government to decimalise, the actual Conversion Day and a transition period to enable conversion of business and coin operated machines. The change-over will be carried out under the supervision of a Decimal Board to be set up by Government for the purpose.

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Measureable costs to the economy involved in the changeover are estimated at £296,000 of which £106,000 will be incurred by the Central Bank to replace existing note issues and the balance will be incurred mostly by the private sector to convert or replace £. s. d. machines.

The above is a brief summary of the findings and recommendations of the Decimal Currency Committee who, as already observed, unanimously recommended adoption of the 10s - cent $\frac{1}{2}$ system.

The Report of the Decimal Currency Committee was referred to the Central Bank for the views of the Board of Directors. The Directors are fully in agreement with the Committee that:

- a) The sooner Malta changes to a decimal currency the better;
- b) The best time of the year for the changeover is January/February;
- c) The preparatory period should be not less than eighteen months from the enactment of the law;
- d) The transition period to complete decimalisation should be as short as possible.

The main point of disagreement is on the Committee's recommendation that the Malta Pound should be discarded as the major unit of account in favour of a new 10/- system. The Board's views on this point are set out in the attached Appendices A and B.

The Central Bank is also against the setting up of a Decimal Currency Board with executive powers in all matters relating to decimalisation, because apart from encroaching on the statutory responsibilities of the Central Bank, such a Board is not considered competent to handle practical currency problems. The Central Bank suggests instead that decimalisation should be carried

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out under the direct supervision of the Ministry of Finance, Customs and Port and the Central Bank.

Hon. Ministers are asked to give their views on the two recommended systems - one based on the £ and the other on the 10s. The choice will lie between the £ - cent $\frac{1}{4}$ and 10/- cent $\frac{1}{2}$ or the £ - cent $\frac{1}{2}$ and 10/- cent depending on whether or not the value of the present halfpenny is retained in the decimal system.

18th June, 1969.

Memo by the Governor, Central Bank
on the Decimal Currency Committee Report.

1. Approaching the question from a practical angle, there are certain fundamental and well-recognised advantages in decimalising on the existing major unit:-
 - (a) The 'Malta Pound' is something with which everyone is thoroughly familiar; it has become deeply imbedded in everyday thinking;
 - (b) It requires the least amendment of existing legal, statistical and administrative records - in many cases no recalculation is needed at all. A new 10/- unit, on the other hand, would involve complete revision: and it must be emphasized that this is not just a 'once and for all' operation, but a long-continuing inconvenience;
 - (c) It is the least expensive system currency-wise, because only $1\frac{1}{3}\%$ of the existing note circulation will need immediate replacement;
 - (d) It will greatly facilitate price comparisons with the decimalised Pound currencies of the U.K., Libya, and most other countries with which Malta at present does most of her trade and which provide the great bulk of her tourists.

An entirely new, un-named unit would need some very weighty arguments in its favour to offset the undoubted benefits of the Malta Pound indicated above.

2. The Directors of the Central Bank have spent a great deal of time, including two lengthy Board Meetings, in trying to make sure that they have fully understood the case put forward in the Report and given it a fair and proper hearing. Nevertheless, on the Committee's own admission, it is evident that the main

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arguments advanced in favour of a 10/- unit are only marginal (none is really crucial) and that they relate almost exclusively to local considerations during the period of transition. In other words, it is clear that overmuch attention has been concentrated on a comparatively narrow front and far too little on the wider, more permanent, factors that will have important repercussions on the country's well-being, trade-wise and touristically, for many years to come. The Board of Directors find this attitude extremely puzzling, especially in view of the fact that all the commercial banks, the Tourist Board, the Drydocks, the Customs, the Milk Marketing Undertaking, Public Lotto, Inland Revenue, the Commissioner for Gozo, and the vast majority of the leading local manufacturers and business firms voted solidly in favour of the Malta Pound.

3. The four desirable characteristics examined by the Committee (but unfortunately without much attempt to assess their relative importance) were:-

(a) DURABILITY.

The Committee freely admit that the Malta Pound would be a more durable unit of account than the 10/-. This is therefore still another point to add in its favour.

(b) FLEXIBILITY.

The Committee consider that there is little to choose between the £ and the 10/- units on this score, both being regarded as satisfactory. In the Board's view, however, the Committee fail to appreciate that flexibility is more important at the upper end of the scale than the lower limit. The kinds of payment incorporating a $\frac{1}{2}$ d are decidedly few, compared with the almost limitless variety of transactions where the use of a 10/- unit would necessitate the doubling of existing amounts and, hence, the use of an extra digit for all figures over 4. This extra figure work, coupled with a sharp reduction in the upper

capacity of business machines, and a serious loss of space in tabulated statistics etc., is a permanent defect - unlike the minor disadvantage of an extra figure for the $\frac{1}{2}$ d, which will disappear automatically in a fairly short time. The Central Bank is therefore of the opinion that the £ unit is far superior to the 10/- as regards 'Flexibility' as well as 'Durability'.

(c) SIMPLICITY.

The Committee's objection to the £ unit is that it will involve the use of a 'fraction' for amounts under 2.4d - and is not therefore a 'pure' system. The force of this objection is difficult to gauge, because it is not quite clear what the Committee have in mind. Nothing would appear to be gained by trying to get the public to stop thinking in fractions; most Americans, for instance, prefer to talk of a 'half-dollar' rather than '50 cents'.

There is no practical difficulty with ordinary arithmetical calculations involving a $\frac{1}{2}$ cent, because the $\frac{1}{2}$ will obviously be written as .005.

In the case of cash recording machines it is certainly more economical to use the $\frac{1}{2}$ than .005, but the National Cash Register Company (supplying over 90% of Malta's machine requirements) has informed the Central Bank that a $\frac{1}{2}$ cent key can easily be substituted for the present 6d key on existing machines. Moreover, a $\frac{1}{2}$ cent key, closely equivalent in value to the present $\frac{1}{2}$ d., could be added (plus a $\frac{3}{4}$ cent key) at very little cost - although it must be emphasised that few machines with a $\frac{1}{2}$ d key are currently used in Malta and there has been no public demand for them for over six years. In any event, the extra cost is only marginal; it pales into insignificance against the economies that business firms will derive in other directions.

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In brief, the Central Bank is certain that the case which the Committee is trying to build up on machine considerations will not bear close examination. They are confirmed in this opinion by the National Cash Register Company itself, which is quite convinced that the retention of the existing Pound unit is the right answer for Malta.

(d) ASSOCIABILITY.

The Committee describe ready associability as "the great merit" of the 10/- system. At the same time they recognise that this advantage "is mainly confined to the transition period and is therefore of a temporary nature" (paragraph 13). Taken together, these two remarks can only imply that the immediate difficulties of the change-over from £. s. d. are conceived to be so great as to over-ride all other considerations. Indeed, it is clear that the Committee's decision in favour of the 10/- unit is based primarily, if not almost entirely, on this score.

The Central Bank feels that this decision shows a serious lack of a sense of proportion, probably stemming from previous inexperience in currency matters. Nevertheless, the argument must obviously be carefully pursued.

As stated in the Report, "the key value is the shilling, which is equivalent to 10 cents". Prices expressed in shillings will therefore bear a close resemblance to their decimal equivalent under the 10/- system - i.e. 2/- = 20 cents. Thus the necessity of multiplying by two, as would be the case under the £ system, would be avoided. But this argument cuts both ways. All values expressed in Pounds - and these cover a far wider range of transaction than those in shillings and are particularly important to tourists - lose their associability: they would all have to be multiplied by two. It is very curious that, in commenting on the conversion of pounds

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under a 10/- system, the Committee say that it "would only entail multiplication by two" (paragraph 68). The Central Bank finds it hard to understand why it should be so easy to multiply Pounds by two and yet so difficult to multiply Shillings by two. It almost looks as though two standards of judgment have crept into the Report. As regards associability with existing Pence prices, it must be pointed out that the superficial advantage, to which the Committee attaches so much importance, is not without its dangers. It may seem attractive, for instance, that 5s. 5d. should equal 54 cents (paragraph 68), but it opens up a big temptation to the shopkeeper to call it 55 cents, especially as that involves one less coin in payment. The inflationary risk is obvious.

The Central Bank's main concern, however, on the question of associability, is that the Committee have taken so long to produce their Report that all plans for a new Malta coinage have been thrown completely out of gear. The Central Bank has had no option but to put into circulation the new U.K. 10 cent and 5 cent pieces, equivalent to 2/- and 1/- respectively. The proportion of these coins is bound to grow rapidly over the next twelve months, by which time the public will have adjusted themselves to recognising 10 cents as 2/- almost automatically. Suddenly to reverse that association on D-day is likely to produce the very state of confusion that the Committee are so anxious to avoid. Worse than that, if the Committee's suggestions were carried out, Malta would - for quite an appreciable time - have two sets of decimal coins in circulation side by side, the numerals on one being twice the value of those on the other.

4. CONCLUSION.

Having gone through all the arguments put forward in favour of the 10/- unit, the Board of Directors put the question to the vote. The result was that the Committee's recommendation on this point was considered to be definitely unacceptable, the voting being 4 to 1 in favour of retaining the Malta Pound.

Memo by the Governor, Central Bank,
on Currency Decimalisation

1. A study of the decimalisation question, to be of any practical value, must start with an examination of the composition and use of currency in circulation at the present time. This provides the only authentic and complete picture of the country's everyday needs. The Central Bank makes no attempt to force any particular denomination of note or coin upon the public; it merely responds to popular demand. In a sense, therefore, current statistics constitute the best form of public referendum.

2. NOTES

On 30th April 1969 the total currency note issue amounted to £38.5 million, of which £24.5 million were in £5 notes, £13.4 million in £1 notes and £0.5 million in 10/- notes.

The striking fact emerges that no less than $98\frac{1}{2}\%$ of the circulation is in notes of £1 or a multiple thereof and only $1\frac{1}{2}\%$ in 10/- notes.

The Committee's suggestion that almost 99% of the country's notes can be left in circulation, possibly for years, alongside a minor note (and subsidiary coinage) based on a different monetary unit is quite impracticable. If people continued to settle their daily transactions in pound notes, they would not go to the bother of multiplying them by two every time: the Malta pound would remain the unit of account and the new (unfamiliar) 10/- unit would never gain acceptance.

One must realise, therefore, that if Malta were to introduce a 10/- unit system, the whole note circulation would have to be called in and re-printed. The mere cost of re-issue would be about £100,000.

This is nothing, however, compared with the incalculable damage that might be done to the economy if hoarded £5 and £1 notes, estimated to total some £15 million, were suddenly brought out into the open. Post-war experience elsewhere indicates that private persons are loath to exchange large note holdings, for fear of attracting attention. Instead, they often convert them into other easily concealed assets and sometimes distribute them among friends and relations. It is also a fact that smaller hoards, when paid into the banks, tend to stay there to some extent, thereby swelling the supply of credit. In various ways, therefore, the previous deflationary effect of hoarding - from which Malta has derived considerable benefit over the past three years - would go sharply into reverse. The repercussions, both on the domestic price level and the Central Bank's external reserves, would not be at all welcome, especially before a general election.

Even if notes expressed in Malta pounds were not called in immediately, a mere announcement that Malta was going over to a 10/- unit would, in itself, be a sufficient warning of "pound demonetisation" to set in train the process of de-hoarding mentioned above. The practical advantages of the 10/- unit would have to be very strong to justify the Government in taking such a risk.

In this kind of situation, the classical remedy to counteract the inflationary potential is to block large deposits of notes and only release them very gradually - but it is hard to believe that the Maltese public would tolerate such treatment, for the sake of a new unit which, according to available evidence, the great majority do not want.

3. COINS

The amount of coin at present in circulation is uncertain, but a figure of £400,000 is generally accepted as the best available estimate.

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The following table shows the value of U.K. coin imported through official channels over the past ten years and gives a good indication of public demand for the various denominations:

Period	(£'000s)							TOTAL
	2/6	2/-	1/-	6d	3d	1d	$\frac{1}{2}$ d	
1959-67	92.5	131.0	74.5	46.5	40.5	16.0	.1	401.1
1968 - 5.5.69	90.0	90.0	37.0	25.5	11.5	5.0	-	259.0
	182.5	221.0	111.5	72.0	52.0	21.0	.1	660.1
In C. Bk. Stock 5.5.69	35.3	36.4	11.3	10.0	2.3	.3	-	95.6
Issued	147.2	184.6	100.2	62.0	49.7	20.7	.1	564.5

The two most salient features are:

- (a) The $\frac{1}{2}$ d has practically gone out of circulation. The last small import of £100 took place in 1961, nearly nine years ago, since when there has been a fairly steady return flow of unwanted coins to the banks. One can only conclude that, while the $\frac{1}{2}$ d is still used to some extent in the retail trade for shading prices, it is very little used in actual payments. This conclusion is borne out by the machine manufacturers, who have informed the Central Bank that they have not had a single order for a machine incorporating a $\frac{1}{2}$ d key for more than five years. Hence, the Committee's idea that the $\frac{1}{2}$ d is a vital part of the local coinage is not based on fact. For the comparatively rare use that is still made of a $\frac{1}{2}$ d coin the Central Bank could produce an aluminium $\frac{1}{2}$ cent coin under the £ system at practically no cost.
- (b) The 2/- and 1/- pieces together form over half the coinage in circulation. The minting of these two denominations ceased over a year ago, since when the Central Bank has been compelled to issue an increasing volume of the new U.K.

metric equivalents, namely the 10 and 5 "new penny" pieces, which are legal tender in Malta. These coins are already becoming familiar to the public and more and more of them will be passing into circulation over the next year or so.

If Malta were to go over to a 10/- unit, two series of metric coins, bearing the same numerals, would circulate side by side during the transition period, one series having half the value of the other. One can hardly imagine anything more chaotic.

Apart from this general weakness in getting to grips with practical issues, the Committee's report contains a number of airy expressions of opinion, unsupported by argument, and several definite misstatements of fact. It is not appropriate to go into all the details now.

It is important, however, to remove the false impression that, apart from the United Kingdom, the 10/- system is universally accepted throughout the sterling area. On the contrary, the other three European countries faced with decimalisation over the next two years - Ireland, the Channel Islands and Gibraltar - have all given up the idea of introducing a 10/- unit and have decided to stay on the local Pound. Libya, Tunisia, Cyprus, United Arab Republic, Sudan, Jordan and several other countries in or around the Mediterranean have, in the past, decimalised on the Pound/Dinar unit without any difficulty. For years Maltese children have been taught decimals of the Pound as part of their ordinary curriculum. It is odd that none of this is mentioned in the Report.