

MEMO BY THE MINISTER OF FINANCE, CUSTOMS AND PORT (Ad Int.)
FOR THE CONSIDERATION OF MINISTERS

WHITE PAPER

INTRODUCTION OF A DECIMAL CURRENCY SYSTEM

In recent years several countries changed their £. s. d. system of currency to a decimal system. These were:-

1948	Burma
1951	Aden
1955	British West Indies and Cyprus
1957	India
1961	South Africa and Pakistan
1964	Sierra Leone
1965	Ghana
1966	Australia
1967	New Zealand and Western Samoa
1968	Zambia

With Britain, Eire and Jamaica following suit in the near future, the decimal currency system will shortly be in almost universal use. Government could not ignore these events which could have a direct bearing on the local economy. Accordingly a Committee was set up to study the implications of the introduction of a local decimal currency and

- a) to make recommendations on the form such decimal currency should take, including the various units to be adopted;
- b) to make recommendations on the timing and phasing of the changeover to the new form; and
- c) to estimate the cost to the economy involved in the changeover.

The Committee have now completed their task and submitted their Report to Government.

THE BENEFITS OF DECIMALISATION

General

The report stresses the fact that decimalisation will be very beneficial to Malta. The advantages claimed for a decimal currency stem from the potential saving in time and effort through the application of a common basis (base 10) for monetary and non-monetary calculations. They are in effect the result of simplification and uniformity which could be achieved by changing the relationship between the unit and sub-units of our currency from the present basis of 20 and 12 to one of 10. These benefits should be particularly noticeable in education, in office and clerical operations and in the procurement and use of office machines.

Schools

At school, a child takes his first steps in ordinary arithmetic on the basis of ten. After a time, he is required to learn the much more complex £. s. d. system. Long periods of practice and effort on the part of the child and meticulous correction by the teacher are necessary before the pupil can attain a certain degree of proficiency: those exercises involving reduction of money amounts to shillings and pence clearly illustrate this point. With a decimal system of currency the pupil will continue to apply the same rules that he learned in his first lessons on numbers and, as soon as he is able to add, subtract, multiply and divide ordinary numbers, he will automatically be able to add, subtract, multiply and divide money amounts as well. The benefits of decimalisation in this sector are therefore expected to be quite substantial.

Office and Clerical Operations

There will also be a considerable saving in time and effort in industrial, banking and government operations. Two factors will, for instance, add appreciably to the advantages to be gained in these fields. The first is that with certain decimal systems there are often fewer digits than in £. s. d. The second, and much the more important, is the elimination of some of the arithmetical steps now needed in performing a given operation, such as invoicing.

Machines

The bulk of business machines sold on the world market are designed for decimal currency so that local users have so far been restricted to a limited market insofar as their machine requirements are concerned. A change to a decimal currency will render possible access to the world market, a wider choice of makes and the latest technological improvements, with prospects of cheaper prices. Moreover standard decimal machines are more versatile in that they can be used for both numerical and money calculations - an advantage of some importance considering that machines are expensive items.

THE CHOICE OF SYSTEMThe ideal decimal system

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

- a) must be simple;
- 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 related to £. s. d. in such a way as to enable the general public to associate the new values with the old without much difficulty;
- e) must cause a minimum rise in prices;
- f) must permit local users to make the most advantageous use of business and coin-operated machines.

Moreover, the Committee consider that as the exercise involves a change from one system (£. s. d.) to another (decimal), it is clearly desirable that the new system should retain clear links with £. s. d. It is not, however, possible to retain the pound, the shilling and the penny in one and the same decimal system. What is possible is to include only one of these denominations or to build the new system on multiples of one of the denominations.

Systems selected for examinations

The Committee accordingly examined four systems in detail - the 8s. 4d. - cent, £ - mil, £ - cent (fraction) and 10s. - cent (fraction).

The 8s. 4d. - cent system, while satisfactory from some aspects, will 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 community for many years. For shoppers, there is complete identity between the old and new systems up to 11d., but further up conversions become increasingly difficult. It will require quite an effort on the part of the average man in the street to translate 93 cents into 7s. 9d. and successively bigger efforts still will be necessary for amounts exceeding 8s. 4d. and 12s. (such as 2.10 units to 17s. 6d.) even assuming knowledge of the multiplication tables up to 12. Under this system, present coin values with the exception of the penny will be off-standard and will have to be replaced by the universally accepted standard denominations (1c, 2c, 5c, 10c, 20c etc.) representing totally different values. During the period following the actual Conversion Day the public will have to deal with the old coinage ($\frac{1}{2}$ d, 1d, 3d, 6d, 1s, 2s and 2s. 6d.) as well as with the new standard denominations - 1c (1d), 2c (2d), 5c (5d), 10c (10d) and 20c (20d) twelve coins in all. In the opinion of the Committee this would be a problem for which they could see no solution. The Committee therefore had to discard this system.

With regard to the £ - mil system, the Committee observe that while this system retains the £, which is an advantage, it lacks simplicity since like all three-place systems, it will entail the use of uncomfortably large numbers in many day-to-day transactions: 3s. 9d. will be expressed as 187 mils and 18s. 11d. as 946 mils. Mental arithmetic with such figures will represent a serious handicap to all sectors of the community: this serious disadvantage will moreover continue into the indefinite future, that is, so long as the system remains in use. Standard decimal business machines which are mainly designed for cent systems will require an adjustment under this system, which, although slight, will, however, reduce capacity to one-tenth. The Committee do not consider this system suitable for Malta. Moreover, it is observed that mil systems 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 fraction) and the 10s - cent (with a fraction).

Before proceeding with the final choice of system, the Committee considered the advisability or otherwise of retaining the approximate decimal equivalent of the present half-penny - $\frac{1}{2}$ cent under the £ - cent system and a $\frac{1}{2}$ cent under the 10s - cent system, both equal to 0.6d. The Central Office of Statistics calculated that without the $\frac{1}{2}$ d equivalent the effect on the Retail Price Index, if any one of the two systems were introduced, would be an increase of 1.1% if all retail prices were rounded up to the nearest decimal equivalent. With the $\frac{1}{2}$ d decimal equivalent the increase would be reduced to 0.6%. Price quotations collected during 1958 in connection with the normal monthly cost of living measurements were examined by the Central Office of Statistics. Out of some 2,500 price quotations in respect of 291 items featuring in the cost of living index, 451 or 18.04%, relating mainly to groceries, contained the $\frac{1}{2}$ d. Moreover replies to the Committee's questionnaires received from representative organisations and from many retailers indicate that there is substantial public support for the retention of the $\frac{1}{2}$ d. The Committee noted also the very strong representations made by the Department of Trade in favour of the retention of the $\frac{1}{2}$ d decimal equivalent. It was therefore concluded that the half-penny equivalent was necessary in order to minimise price adjustments.

The Committee had therefore finally to choose between the £ - cent $\frac{1}{2}$ and the 10s - cent $\frac{1}{2}$ systems.

The £ - cent $\frac{1}{2}$ system has many advantages: it is a cent system; it retains the £, 2s. and 1s. equivalents; 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 $\frac{3}{4}$. These fractions will render the system cumbersome and much less satisfactory insofar as simplicity is concerned. The Committee had to give great weight to this factor, because it was considered that if the adopted system would not ensure a high degree of simplicity in money calculations there would be hardly any scope for decimalisation. The Committee also considered that, under the £ - cent system, the $\frac{1}{2}$ cent being equivalent to 1.2d would be too high a value to be ignored in accounting. Business machines will therefore 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 countries manufacturing non-standard machines for that market. The Committee observed that the frequent use of vulgar fractions (as they are bound to occur under the £ - cent $\frac{1}{2}$) will undoubtedly slow down the mechanics of payment and change-giving.

It is also considered that conversion of day-to-day transactions, which are normally stated in shillings and pence, are difficult under this system and the general public will find it harder to understand this system than the 10s. - cent $\frac{1}{2}$. The Committee therefore concluded that the £ - cent $\frac{1}{4}$ is inferior to the system based on the 10s.

The Committee unanimously recommend the 10s. - cent $\frac{1}{2}$ as the most appropriate system for Malta. It is simple and consistent: it provides a major unit and a minor unit suitable for both large and small transactions: it retains the 6d (5c), 1s (10c) and 2s (20c) values. The fact that (i) the shilling and multiples of the shilling are expressed by identical figures (1s - 10c, 3s - 30c, 7s - 70c); (ii) there is a close resemblance of penny values to cent equivalents and (iii) there is a simple relationship between the £ and 10s units, renders adaptation by the general public easier than under any of the three other systems. In the Committee's view the success or failure of the system proposed will ultimately depend, in very great measure, on adaptability by the public, transitory though this factor may be. This has proved to be the case in Ghana, where the 8s. 4d. - cent system had to be officially abandoned in favour of the 10s system because the public found it difficult to relate to £. s. d. It is agreed by the Committee that the £ - cent $\frac{1}{4}$ is a better system than the 8s. 4d. in this respect, but that the £ - cent $\frac{1}{4}$ is then much inferior to the 10s - cent $\frac{1}{2}$ and is bound to be more difficult to be assimilated by the public.

The Committee drew attention to other factors which contributed to the final choice of system. The $\frac{1}{2}$ cent under the 10s. cent system, being nearly equivalent to the present half-penny, will be restricted to shopping transactions and the system will therefore be non-fractional insofar as accounting is concerned. This represents another great advantage of the 10s - cent system because local business machine users will have access to the world market for standard decimal machines thus ensuring a wider selection of makes, types and prices. It is finally observed by the Committee that 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.

Trade, tourism, financial records and school books

It has been suggested that a currency unit other than the £ will have adverse effects on our foreign trade and in particular on our trade with the United Kingdom, which is retaining the £ as its major unit. Such fears, according to the Committee,

are without foundation. It should be obvious that a major unit of 10s instead of the present £ of 20s will not mean that the value of our currency will be halved. The value of Malta's currency in relation to foreign currencies will remain unchanged; only the numerical relationship will be altered. A very simple arithmetical calculation will be necessary (times 2), but that is all. The notion that this might deter United Kingdom importers from buying from Malta is extremely far-fetched and is disproved by both the logic and the history of international trade.

The £ - cent system, being identical with that in the United Kingdom has some advantage where the British tourist is concerned. However the 10s system should not present any difficulties as the relationship between the two is very simple; that currency problems should be no deterrent is borne out by the fact that every year millions of British tourists visit other European countries whose currencies bear no resemblance to £. s. d. It would be wrong to assume that British tourists come to Malta because of our present identical currencies. What really attracts them to our shores are other factors such as our climate, a friendly environment, absence of exchange control restrictions, the relatively cheap air fare and absence of language difficulties.

Financial and statistical records under the £ system will tie up with existing ones expressed in pounds without necessitating any recalculations. Similarly no alterations will be necessary to existing contracts, bank balances and business accounts involving pounds only. The 10s system will render necessary the conversion of records expressed in pounds, but the operation is simple, requiring only doubling and will normally be performed by personnel accustomed to such calculations. The larger organisations, for whom the operation will involve a considerable volume of work, should not experience serious difficulties in view of the mechanical aids at their disposal. It should also be borne in mind that very often bank balances and other records are not expressed in pounds only, but in shillings and pence as well. In view of the close resemblance of shillings and pence to amounts in cents under the 10s system, conversion in such instances will be found simpler under this system.

Whichever system is adopted, existing mathematics school books will become unusable in so far as money teaching is concerned. Adoption of the £ system will enable the local education authorities to make use of the new decimal editions available from United Kingdom sources. Under the 10s. system, pupils will also be able to make use of the same British books since supplements dealing with the 10s. system can be produced locally under the supervision of the Education Department. In the circumstances the 10s. system will present no major difficulties in this respect.

Central Bank's views on the Committee's Report

The main point of disagreement between the Bank and the Committee is on the latter's recommendation that the Malta Pound should be discarded as the major unit in favour of a new unit based on 10s. In the opinion of the Central Bank there are certain fundamental and well-recognised advantages in decimalising on the existing pound:-

- i) The Malta Pound is something with which everyone is thoroughly familiar; it has become deeply imbedded in everyday thinking;
- ii) It requires the least amendment of existing legal, statistical and administrative records - in many cases no recalculation is needed at all. A new 10s unit, on the other hand, would involve complete revision: and it must be emphasised that this is not just a "once and for all" operation, but a long-continuing inconvenience;
- iii) It is the least expensive system currency-wise, because only $1\frac{1}{2}\%$ of the existing note circulation will need immediate replacement;
- iv) 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 major unit will need some very weighty arguments in its favour to offset the undoubted benefits of the Malta Pound indicated above.

The Central Bank contend that the main arguments advanced by the Decimal Currency Committee in favour of the 10s system are only marginal and they relate almost exclusively to local considerations during the transition period following the date of conversion. In other words, over-much 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 Central Bank do not agree with the assessment made by the Decimal Currency Committee with regard to the desirable characteristic of simplicity which should be possessed by the system to be adopted in Malta. While the Committee opine that vulgar fractions will render the £ - cent system cumbersome

and unsatisfactory the Central Bank contend that nothing would appear to be gained by trying to get the public to stop thinking in fractions - most Americans prefer to take of a "half-dollar" rather than "50 cents". Moreover 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.

The Committee consider that there is little to choose between the £ and the 10s system as regards flexibility (both have a major unit high enough to suit business transactions and a minor unit suitable for shopping transactions). The Central Bank's view is that flexibility is more important at the upper end of the scale than at the lower limit.

The Central Bank do not agree to the degree of importance attached by the Committee to the associability problem (the ease with which the public will learn the new system), especially when the Committee recognise that it is mainly confined to the transition period and is therefore of a temporary nature. The Central Bank are of the view that the advantage of the 10s system in this respect is only superficial and that identical figures for cents on the one hand and shillings and pence on the other is not without its own dangers. It may seem attractive, for instance, that 5s. 5d. should equal 54 cents but it opens up a big temptation to the shopkeeper to call it 55 cents, especially as that involves one less coin in payment.

Faced with such conflicting views between the Decimal Currency Committee and the Central Bank on the question of the major unit of account to be adopted, the Government is now proposing a wider probe of public opinion through an open debate in Parliament before taking its decision on such a matter of national importance.

14 AUG 1969

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