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CURRENCY BOARD MONETARY SYSTEM: THE CASE OF BRITISH HONDURAS (1894-1976)

Preston Wessells

Johns Hopkins Institute for Applied Economics,
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By Preston Wessells

About the Series

The Studies in Applied Economics series is under the general direction of Professor Steve H. Hanke, Co-Director of the Institute for Applied Economics, Global Health and Study of Business Enterprise (hanke@jhu.edu).

This working paper is one in a series on currency boards for the Currency Board Project. The currency board working papers will fill gaps in the history, statistics, and scholarship of the subject. The authors are mainly students at the Johns Hopkins University in Baltimore who have conducted their work at the Institute as undergraduate researchers.

About the Author

Preston Wessells is a junior at The Johns Hopkins University in Baltimore pursuing a Bachelor of Arts in Economics with a double minor in Entrepreneurship & Management and Financial Economics. He wrote this paper while serving as an undergraduate researcher at the Institute for Applied Economics, Global Health, and Study of Business Enterprise during Spring 2016. He will graduate in May 2018.

Abstract

We provide a historical summary, legislative history, and the first spreadsheet data series of the British Honduras Board of Commissioners of Currency (1894-1976) and examine to what extent it operated as a currency board using statistical tests. This paper makes the annual balance sheets of the currency board available in machine-readable form for the first time, in a companion spreadsheet workbook.

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Keywords: Belize, British Honduras, currency board
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Introduction

Prior to its current era of central banking, British Honduras (now Belize) operated a Board of Commissioners of Currency from 1894 to 1976 to control the issue of notes. Some narrative accounts of the period exist, the most notable being Dr. John Wyeth's book *Belizean Economic History: A History of the Belize Board of Commissioners of Currency (1894 to 1976)*. However, none present the statistics from the period in the machine-readable, high-frequency form necessary for quantitative analysis. Therefore, the novelty of this paper will come from statistical tests and analysis. We provide semiannual statistical data of the balance sheet, with additional data from Blue Books (colonial statistical reports), colonial annual reports, and statistical abstracts.

Several major external events, including World War I, World War II, and the devaluation of the pound sterling in 1949, resulted in significant changes to the Board. Furthermore, the last decade of the Board's operation had several changes as a result of an independence movement causing a desire for more autonomy. The Board had a more eventful existence than most of its counterparts in other British colonies in the hemisphere.

Our main focus is determining the level of orthodoxy of British Honduras' Board of Commissioners of Currency using statistical tests. This paper does not provide commentary or analysis into other areas of the colony's monetary system. Further analysis of the monetary system should be aided by the statistical data provided in the accompanying spreadsheet.

Origins and Works of the Government Note Issue

Until the Board of Commissioners of Currency was established in 1894, the currency system in British Honduras was uncertain and chaotic. Exchanges took place using local export staples — logwood and mahogany in the earliest documented transactions (Wyeth 1979: 15). Without a currency of its own, the territory switched frequently between the currencies of the neighboring countries. Britain's attempts to introduce U.K. silver after establishing the colony failed to gain popular favor. Immediately prior to the issue of the British Honduras dollar, the main currency in the colony was the silver Guatemalan peso (Wyeth 1979: 15).

British Honduras finally took steps to regularize the money supply in 1894 with the issuance of its own currency. This change came when the colonial government established the Board of Commissioners of Currency and created the British Honduras dollar (B$) with a one-to-one exchange rate with the United States gold dollar (British Honduras Annual Report 1894: 6; Wyeth 1979: 16). Local notes were issued in return for U.S. gold coin and the Commissioners of Currency were required to redeem the notes for silver or gold on demand.[1] Gold coins received for the issue of notes became the lone component of currency reserves. This structure meant that there would always be around 100 percent backing of the notes in circulation. One-third of

[1] The silver coins paid by the Board had a value as metal substantially less than their face value, so there was no arbitrage opportunity between silver and gold.

the reserves backing the notes in circulation were invested while the other two-thirds of reserves were required to remain in gold for convertibility (Ordinance No. 32 of 1894). This system created problems due to the limited amount of invested reserves, which yielded minimal revenue compared to what later became the typical currency board model. A ten percent depreciation reserve was created to cover the possible depreciation of the Note Guarantee Fund (Wyeth 1979: 16). The goal of the Note Guarantee Fund, by rule, was to hold 110 percent of the value of the current issue. Local coins issued were separate from notes and were guaranteed directly by the general revenue of the colony rather than by the currency board (Wyeth 1979: 17).

World War I prompted the first significant change to the Board when the presence of a German warship nearby put pressure on the government to move the valuable gold stock. British Honduras' gold stock was shipped to the United States in 1914 for safekeeping by the Royal Bank of Canada (the only bank in the colony). Ordinance No. 24 of 1914 was passed to temporarily suspend the convertibility of notes into gold (Wyeth 1979: 17). When the war ended, the gold remained in the possession of the Royal Bank of Canada with interest paid under the stipulation that notes could be converted into gold within ten days (Wyeth 1979: 17). Gold was rarely requested due to the acceptability of U.S. dollar notes in exchange for local notes, resulting in the unofficial end of the "classical" gold standard in British Honduras and its replacement by a kind of gold exchange standard.

Several significant changes to the Board occurred in the 1930s. The United Kingdom abandoned the gold standard in September 1931 and, as a direct result, the pound sterling depreciated against the U.S. and British Honduras dollars from \$4.86 to \$4.03. Fortunately, losses in the Board's reserve account were not devastatingly large because a large proportion of reserves was held in U.S. Treasury bonds at the time (Wyeth 1979: 19). A formal legal abandonment of the gold standard in British Honduras came in 1937, but gold wasn't completely abandoned until 1939 (Wyeth 1979: 20). Although some reserves were required to remain liquid for redemption on demand, they were largely transferred into interest-earning investments. The Note Guarantee Fund was replaced with the Note Security Fund (NSF), and the law stipulated that funds could only be invested in sterling securities (Ordinance No. 1 of 1937).

The outbreak of World War II triggered a rising proportion of trade between British Honduras and Britain because of British demand for wartime supplies. To maintain a stricter degree of exchange control, an ordinance was passed in 1940 to operate a Special Sterling Account in London through the Royal Bank of Canada (Wyeth 1979: 21). This account had no impact on the exchange rate with the U.S. dollar and the rate of exchange with sterling was allowed to fluctuate as usual. An excess of demand for sterling in exchange for British Honduras dollars resulted in the account operating in credit until 1949 (Wyeth 1979: 21).

Dramatic change occurred in 1949 from a confluence of factors. The main problem was that the British Honduras dollar was caught between sterling as a trading currency and the U.S. dollar as the anchor currency. To prevent a loss of foreign reserves at the then overvalued exchange rate of sterling, Britain and countries linked to sterling, known as the sterling area, imposed exchange controls against outside currencies. Sterling exchange controls against the U.S. dollar were extended to the British Honduras dollar. Therefore, there were partial exchange controls between the British Honduras dollar and the currency to which it was anchored. This lack of full convertibility into U.S. dollars prevented the currency board from being fully automatic by adjusting to a trade deficit as it would have done in an orthodox currency board system (Wyeth 1979: 25). Additionally, a severe drought caused crops to fail and the slump in the U.S. markets resulted in a decline in demand for British Honduras' main exports (Wyeth 1979: 26).

The market value of British Honduras's reserves in the Note Security Fund fell dramatically in September 1949 when sterling was devalued against the U.S. dollar by about 31 percent (Wyeth 1979: 26). All reserves in the Note Security Fund were held in sterling securities, resulting in a decline in value of the reserve account by approximately B$280,000. Additionally, the Special Sterling Account fell in value by around B$500,000 and many other government accounts were held in sterling, bringing the estimated total losses to over B$1.5 million (Wyeth 1979: 27). To put that in perspective, British Honduras only had B$837,000 notes in circulation at the time and its population was about 68,000. Side effects of the devaluation included a sharp decline in British investment in the colony and a decline in exports to the sterling area (Wyeth 1979: 27), possibly as a result of events described in the next paragraph. However, most trade occurred with the dollar area. Devaluation of the British Honduras dollar against the U.S. dollar caused significant negative impacts on importers and local consumers. Trade with the United States was on the decline, but mostly due to the increased exchange controls and a slump in U.S. demand for timber rather than to any issues connected with the exchange rate (Wyeth 1979: 28). Imports from the dollar area decreased from £1,545,000 to £893,000 and exports to the dollar area decreased from £1,039,000 to £532,000 from 1948 to 1949 (Statistical Abstract: 1952).

British Honduras Governor Sir Ronald Garvey was responsible for the decision to devalue the local currency. He continually denied that the government would take any actions for three months following the devaluation of the pound sterling in September 1949. Garvey's lack of action gave speculators time to cause an insurmountable deficit to the Special Sterling Account (Wyeth 1979: 28). When the time came, the Legislative Assembly refused to pass the devaluation legislation, forcing the Governor to use his reserve powers[2] to devalue the currency on December 31, 1949 (Wyeth 1979: 29). A nationalist movement called the "People's Committee" formed as a direct result on the negative effects of the devaluation on the income of most inhabitants of the colony (Wyeth 1979: 30).

Sir Ronald's devaluation restored the value of the sterling reserves to more than 100 percent of notes in circulation and raised the British Honduras dollar value of the interest earned. However, the value of the government's Special Sterling Account in the Royal Bank of Canada accumulated losses of well over B$500,000 during the three months of uncertainty (Wyeth 1979: 31). Speculators exchanged British Honduras dollars for pound sterling through the

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[2] Reserve powers enabled the governor to override the legislature under certain circumstances, but the implicit understanding was that use of those powers would be rare.

Special Sterling Account during the months between the sterling devaluation and the corresponding B$ devaluation. The account accumulated a deficit of B$79,000 worth of sterling in the London account due to speculators acquiring large quantities of the British currency. Furthermore, the British Honduras government owed the Royal Bank of Canada over B$500,000 because of the market value loss of the British Honduras dollars that the bank held when the currency was devalued (Wyeth 1979: 30). Barclays Bank had also opened similar account in 1949 before the devaluation of sterling and experienced the same losses as the Special Sterling Account. The total cost the Board had to make up due to these two accounts totaled almost B$1 million; however, most of these losses were paid for by the Bank of England and some of the rest by the British government (Wyeth 1979: 31).

British Honduras' devaluation crisis resulted in the end of the link to the U.S. dollar. The currency was instead fixed to the pound sterling at a rate of B$4 to £1 (British Honduras Annual Report 1949: 18).

As was the case with other British colonial currency boards, the British Honduras Board was allowed to hold significant amounts of local assets beginning in the 1950s. In 1958, a fiduciary issue of B$350,000 was authorized; however, the Board did not actually purchase government bonds until 1967 (Ordinance No. 24 of 1958; Ordinance No. 6 of 1965). Coins were brought under control of the Board in 1965, which placed an increased burden of reserve backing on the Currency Fund (previously the Note Security Fund) (Wyeth 1979: 54 n. 6). The B$500,000 worth of domestic assets purchased in 1967 was approximately equal to the burden caused by the addition of coinage. (The government apparently did not transfer any assets to the Board corresponding to its new liability for coins.) In 1970, an additional B$500,000 of local bonds were purchased, bringing the total value to B$1 million (Wyeth 1979: 37). These fiduciary issues were an attempt to reduce the cost of the currency reserves (Wyeth 1979: 38).[3]

Several major changes came in the 1970s before the Board was replaced at the end of 1976. In 1972, British Honduras' government was given authority to change the exchange rate with sterling after consulting with the International Monetary Fund and the Board (Wyeth 1979: 36). Also in that year, the pound sterling began to float against the U.S. dollar in June as part of the breakdown of the Bretton Woods system of pegged exchange rates, which had been established in 1945. In anticipation of its independence from Britain, British Honduras was renamed Belize in 1973 and the currency became the Belizean dollar. Fluctuations in exchange rates prompted an ordinance in 1975 that allowed Belize's currency to be linked to the U.S. dollar, Special Drawing Rights of the IMF, or gold (Wyeth 1979: 36). The anchor was shifted to the U.S. dollar in May 1976 at a rate of B$2 to US$1 due to a continuing decline of sterling

[3] The cost of holding foreign reserves rather than local assets is the difference between the usually higher interest rate that local assets pay and the usually lower interest rate available on safe foreign assets. Local assets are usually riskier and less liquid than safe foreign assets, though—a point often neglected in the debate about the cost of 100 percent foreign reserves that occurred among economists from the late 1940s to the early 1960s (Schuler 1992: 113-116; 121-123).

against the U.S. dollar (Wyeth 1979: 36). Ultimately, the Board of Commissioners of Currency was replaced at the end of 1976 in favor of a Monetary Authority (Wyeth 1979: 36).

To What Extent Was the Board of Commissioners of Currency a Currency Board?

An orthodox currency board's key characteristics are a fixed exchange rate with an anchor currency; unlimited convertibility between its notes and coins and the currency to which it is fixed; and at least 100 percent net foreign reserves backing the monetary base (Hanke 2002; Imam 2010). The primary function of a currency board is to supply a stable, convertible currency that facilitates market exchange. To what extent did the Board of Commissioners of Currency of British Honduras operate with these characteristics during its operation from 1894 to 1976?

At the original issue of British Honduras dollars, the notes, but not coins (which were not then issued by the Board), were fully backed by gold and external financial assets. Only one-third of the reserves could be invested; the rest were kept in gold for convertibility. British Honduras' use of gold rather than a foreign currency as the anchor was not uncommon before the 1930s but is not what people today think of as typical for a currency board. It did not have a large effect on the key characteristics of the operations of the Board. An ordinance was passed in 1937 that formally ended the "classical" gold standard in British Honduras, although gold was essentially out of use as early as 1914.

A major deviation from currency board orthodoxy occurred in 1949 when exchange controls and regulation of trade with the United States were implemented to reduce the strain on the reserves. The British Honduras dollar no longer had unlimited convertibility with the U.S. dollar, its anchor currency. Furthermore, the devaluation of the pound sterling during 1949 resulted in a major devaluation of the Board's reserves due to the stipulation that the Note Security Fund was required to be invested in sterling securities. This caused a massive decline in the net foreign reserves relative to the monetary base. Ultimately, the Board was forced to devalue the British Honduras dollar relative to the U.S. dollar and changed its anchor currency to the pound sterling. A devaluation was necessary to bring the reserves in line with the notes in circulation, but the three-month period of uncertainty caused lasting damage.

Other deviations from orthodoxy occurred, most notably in the last decade of the currency board's operation. British Honduras changed significantly from 1965 to 1976 as the colony pushed for more independence and autonomy from Britain. This movement included direct legislative changes to the Board of Commissioners of Currency. A timeline of important events and legislation relating to the currency board can be found in the Appendix.

The Data and Our Tests

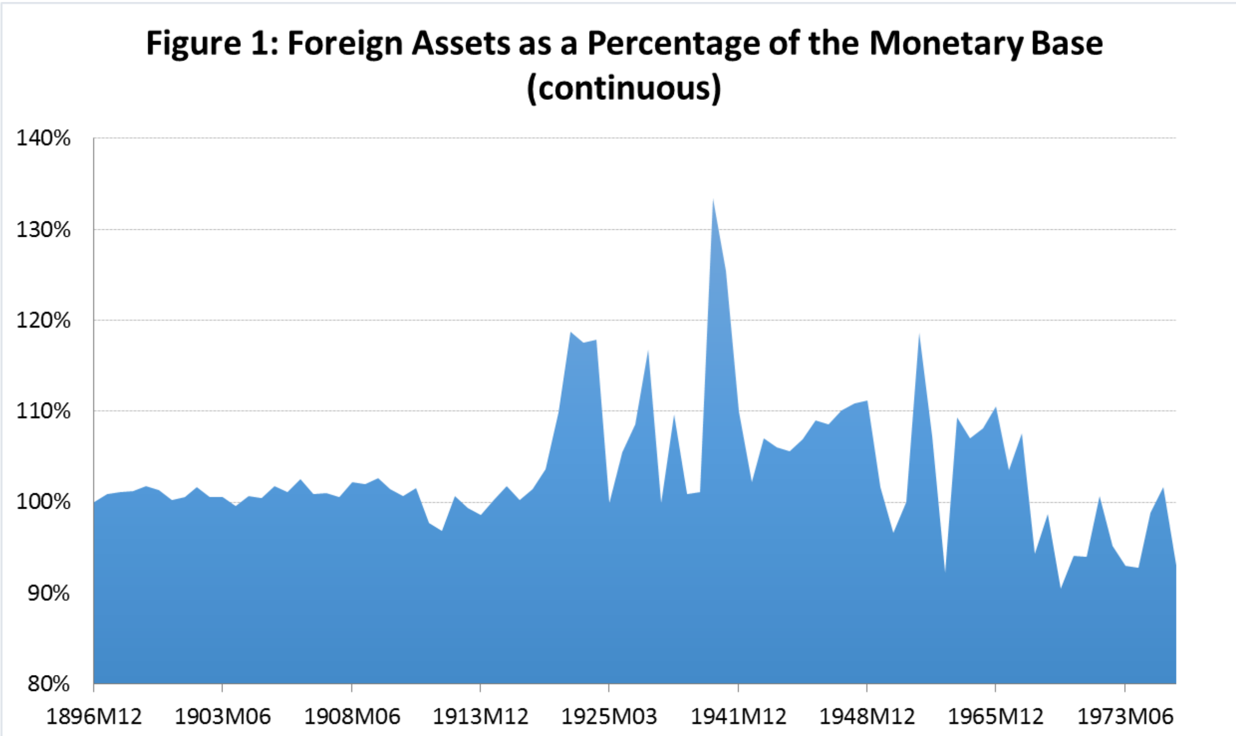
We digitized semiannual balance sheet data on the Board of Commissioners of Currency from 1894 to 1976. The main source for our data was the British Honduras *Government Gazette*. Other data came from the British Honduras *Blue Book* (annual colonial statistical report), the colonial annual report (aimed mainly at a British audience), and *Statistical Abstracts* for the British colonies. We performed tests on the balance sheet items of the Board of Commissioners of Currency. We could not find data for some scattered years and for three long periods. The missing data make it difficult to determine the level of orthodoxy of the currency board for its entire 82-year operation.

Test One: Domestic Assets, Foreign Assets, and the Monetary Base

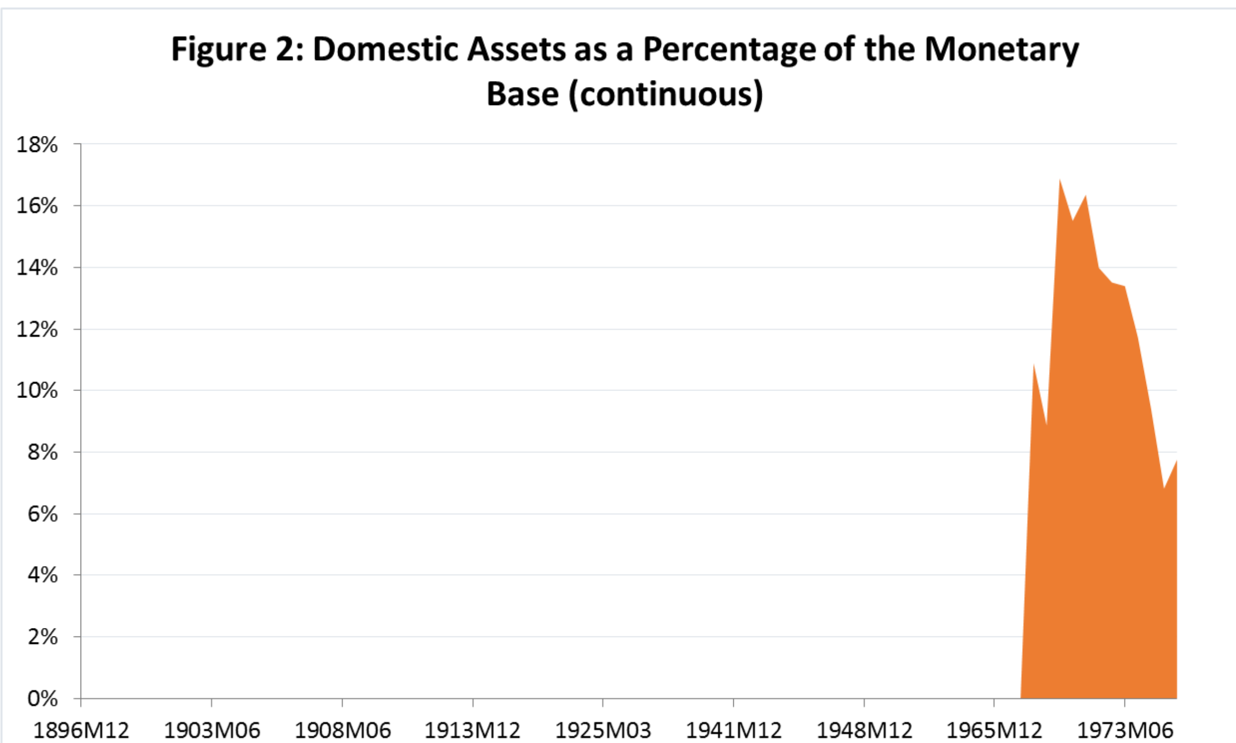
We first measured net foreign assets as a share of the monetary base, in Figure 1. An orthodox currency board should operate with net foreign assets typically between 100 and 110 percent. Figure 1 only shows the available data and omits gaps where data was unavailable. There are several long periods where data on the assets of the Board were unavailable, which makes analysis of the entire 82 years of operation impossible. We provide the “discrete” version showing gaps in the data in the accompanying spreadsheet workbook.

Despite large gaps in the data, it is apparent in Figure 1 (next page) that the British Honduras Board of Commissioners of Currency operated at or above 100 percent for most of its existence. From 1898 to 1914, the ratio hovered around 100 percent. It was during this period that the Board operated on a gold standard. Clearly, the Board operated in a disciplined manner during this time leading up to World War I. The ratio fluctuated more after 1914, likely due to the unofficial end of the gold standard causing changes in the operation of the Board. Some of the large spikes before 1949 are explained by fluctuations of the sterling against the U.S. dollar, to which the British Honduras dollar was fixed at the time. There were several years when the ratio dropped below 100 percent for unexplained reasons. The biggest drop occurred in 1961, when reserves fell to around 75 percent of the notes in circulation. Unfortunately, there are limited data for this multi-year fall below 100 percent. However, the reserves returned to almost 110 percent by 1964 and never fell below the orthodox level for the remainder of the currency board’s existence.

In an orthodox currency board, net domestic assets of monetary composition should be zero or close to it. Figure 2 shows that the British Honduras Board of Commissioners of Currency operated with zero percent domestic assets for most of its operation. Only in the last ten years before the currency board was abandoned did it begin investing domestically. However, the investment was capped at B$1 million and was a reaction to the Board taking over coins in circulation from the government. Although adding coins to the reserve backing brought the British Honduras currency board in line with orthodox currency boards, the use of a substantial percentage of domestic assets pushed it further into the realm of unorthodoxy during this period.



Main Sources: British Honduras Government Gazette; calculations.



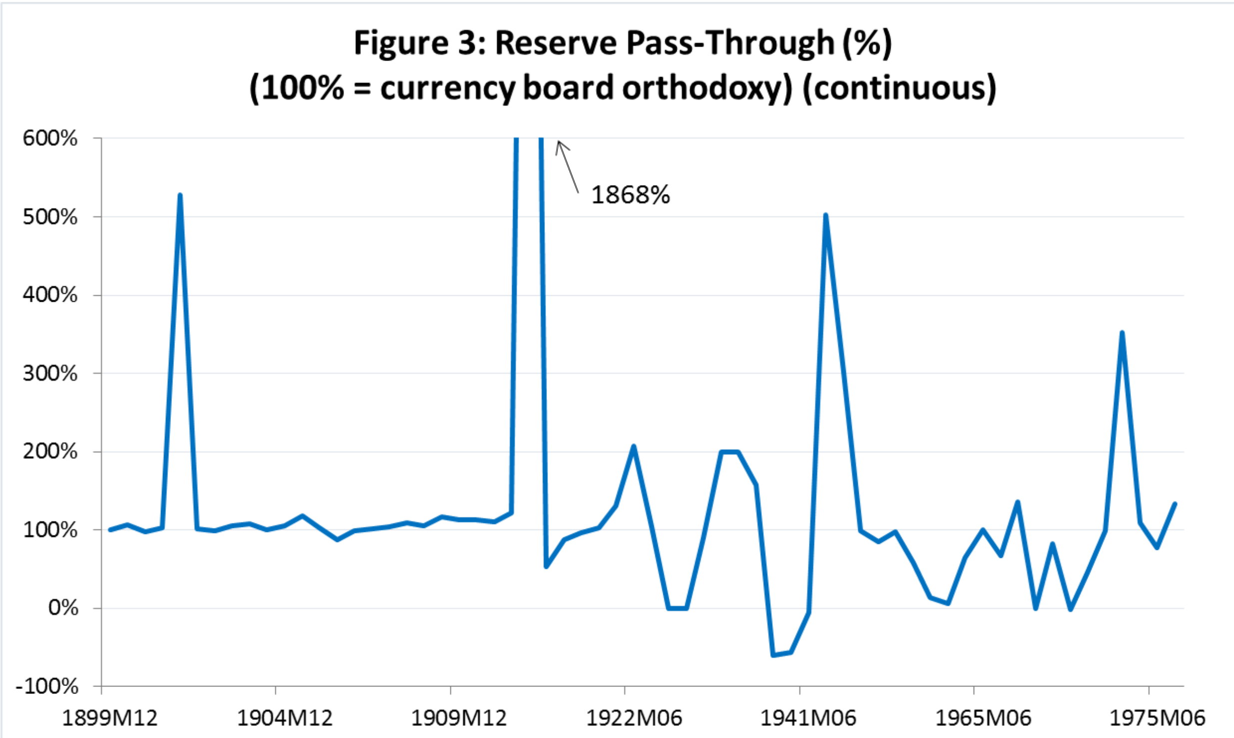
Main Sources: British Honduras Government Gazette; calculations.

Test Two: Reserve Pass-Through

As we know from the legislative history, British Honduras' currency board was not the most orthodox. However, our first test showed that the Board operated in a mainly orthodox manner in terms of reserves as a percentage of the monetary base. However, the first test was only one of several crucial tests to determine orthodoxy. Our second test measures year-over-year change in the monetary base divided by year-over-year change in net reserves. An orthodox currency board should operate at a rate "close to 100 percent" but more likely "within a range of 80 to 120 percent" (Hanke, 2008: 280). Ideally, if net foreign reserves rises (or falls) by a certain amount, the monetary base should rise (or fall) by the same amount (Hanke, 2008). This would result in a reserve pass-through of 100 percent.

Unfortunately, there are many large and small gaps in the data due to unavailability. Figure 3A in the accompanying spreadsheet provides the "discrete" version of the reserve pass-through, showing where gaps exist in the data. The major periods of missing data are 1914 to 1921, 1924 to 1939, and 1948 to 1964. Additionally, the first year after each gap in data is not shown because of the use of the year-over-year calculation. Despite the large gaps, the data that is available provides an adequate view into the operation of the currency board.

Figure 3 displays reserve pass-through for British Honduras in years with data availability. The data range from just over 500 percent to around negative 60 percent. Aside from a spike to over 400 percent in 1901, the Board operated with reserve pass-through levels around 100 percent until 1911. This orthodox reserve pass-through is consistent with the results for this early period from the first test. After this period, the currency board of British Honduras operated with a much more sporadic reserve pass-through ratio. Large positive spikes occurred in 1912, 1941, and 1973. The only time the currency board had a negative reserve pass-through was in 1940. There was a large depreciation of sterling against the dollar in 1939, which is a possible explanation for the decline in the value of reserves while the monetary base increased (Wyeth, 1979: 19). The limited available data from the 1960s show a reserve pass-through close to the orthodox level. Ultimately, the British Honduras Board of Commissioners of Currency appears orthodox in its early years, but then fluctuated between high and low reserve pass-through ratios for many of the remaining years. The lack of consistent data for many long periods of time makes a conclusion about the level of orthodoxy by this measure difficult; however, it is apparent that the Board failed to hold the ratio around 100 percent after its early years.



Main Sources: British Honduras Government Gazette; calculations.

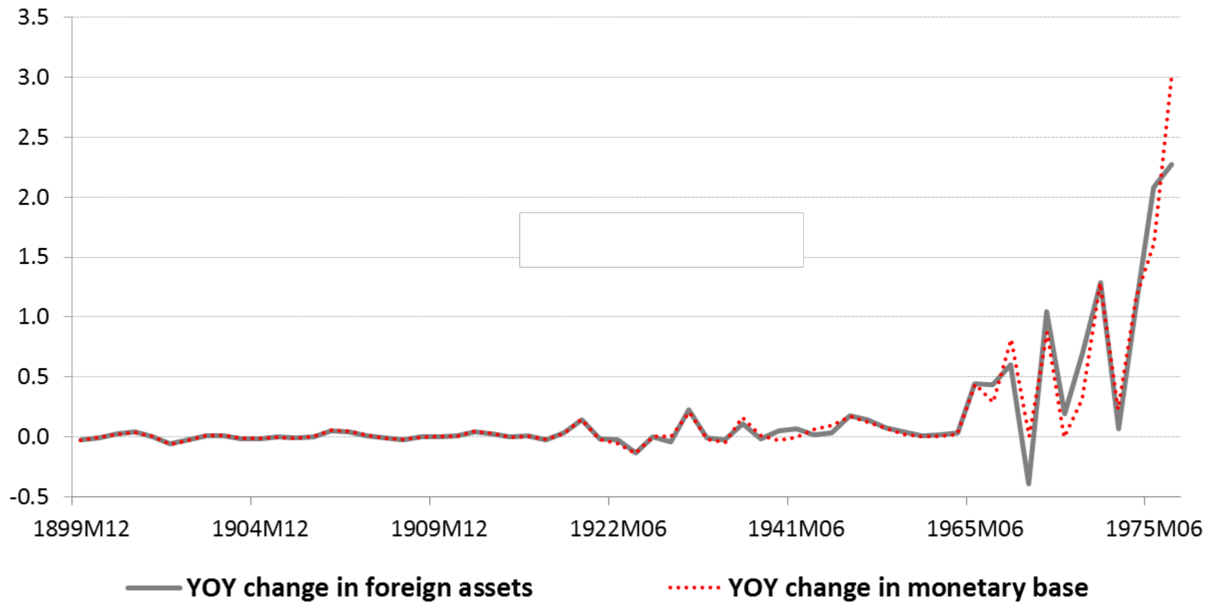
Test Three: Changes in Monetary Base and Net Foreign Assets

Our third test measures annual changes in the monetary base and changes in net foreign assets. When net foreign reserves rise (or fall) by a certain amount, the monetary base should also rise (or fall) by that same amount (Hanke, 2008). Therefore, the two lines should be identical in the simplest case of an orthodox currency board. However, in practice the lines can deviate to some extent even with an orthodox currency board because of factors such as timing of income and expenditures, capital gains or losses, and other managerial or accounting practices.

Figure 4 measures annual changes in the monetary base and changes in net foreign assets. Figure 4 is continuous and only shows the available data. We provide the discrete version, Figure 4A, with the missing data in the accompanying spreadsheet workbook. The first year after gaps in data is not shown because of the use of the year-over-year calculation.

Figure 4 shows a tight link between the annual change of the monetary base and the annual change of reserves. Several small deviations exist; the most notable occurred between 1971 and 1972. The two lines follow each other closely for the rest of the years with data availability. The lines match closely even when the year-over-year change fluctuates dramatically in the last ten years of the currency board's existence. The change of the reserves follows the change of the notes in circulation closely even during the years with a large amount of change. Furthermore, the board shows a strong correlation of 0.96.

Figure 4: Changes in Monetary Base and Foreign Assets (continuous) (million B$)



Main Sources: British Honduras Government Gazette; calculations.

Despite small deviations, the British Honduras Board of Commissioners of Currency appears to have operated as an orthodox currency board according to this test. It is impossible to know what occurred during the extensive gaps in data. However, the strength of the link in this test during the years of available data is enough to conclude that the currency board operated in an orthodox manner for most of its existence. The minor deviations are likely due to fluctuations in the exchange rate. For example, a small deviation is visible in 1940, which can be explained by the devaluation of sterling against the dollar in 1939.

Interestingly, the British Honduras currency board strayed significantly from orthodoxy in the reserve pass-through, but appears orthodox in Figure 4. This can be explained by the scale of Figure 4 and the nature of the test for Figure 3. In years with small changes in either the monetary base or the reserves, the reserve pass-through could show a large percentage difference when, in actuality, the difference was still only a few thousand dollars. Therefore, I believe this test is a more accurate view into the level of orthodoxy of the currency board as it is not prone to abnormal spikes due to relatively tiny differences in assets and liabilities.

Conclusion

Data analysis and the legal framework of the British Honduras Board of Commissioners of Currency result in somewhat conflicting determinations of the level of currency board orthodoxy. In legal terms, the currency board had unorthodox laws. British Honduras' currency board operated entirely on the gold standard until World War I began in 1914. Despite being fixed to the U.S. dollar, the Board restricted convertibility with the U.S. dollar by imposing exchange controls in 1949. After an ordinance was passed in 1957, the Board acquired B$500,000 of domestic assets in 1965, coinciding with a like amount of additional liabilities in the form of the coin issue, which it took over from the government. It purchased an additional B$500,000 worth of domestic assets in 1970 to bring the total to B$1 million, roughly equivalent to 18 percent of currency in circulation. An ordinance was passed in 1972 that allowed the government to change the exchange rate with sterling. Furthermore, the anchor currency changed to the U.S. dollar in 1976 in a reversion back to its original anchor.

The legal framework suggests that British Honduras' currency board was at times orthodox and at other times unorthodox. The statistical tests provide more insight into the details. All three of the tests support the conclusion that the early years of operation were orthodox. Net assets of the monetary base held steady around 100 percent or above for the years until the outbreak of World War I. The reserve pass-through showed little deviation between the annual year-over-year change in the monetary base and reserves. Finally, our last test showed a strong link between the change in the monetary base and net foreign assets. Therefore, the British Honduras was orthodox until 1914. Unfortunately, the data for the rest of the decade until the 1920s is missing.

In the currency board's final decade, it was decidedly unorthodox for numerous reasons. Domestic assets made up a sizeable portion of the reserves. The reserve pass-through ratio spiked during this time and a small, but larger than normal, deviation occurred in the changes in monetary base and net foreign assets. Passing legislation to allow the change of the exchange rate was a major deviation from orthodoxy. So was changing the anchor currency, though perhaps here we should make greater allowances, because when the currency board was established the underlying assumption, generally validated by experience, was that exchange rates among the major international currencies would be quite stable, hence the particular choice of anchor currency was not as important as it became once that assumption no longer held.

After 1914, the British Honduras currency board performed marginally worse in the orthodoxy tests. Several large spikes and dips occurred in net foreign assets as a percent of currency in circulation, but the currency board remained in the 100 to 110 percent range for most of the years with available data. The currency board fluctuated in the reserve pass-through ratio for the years with available data. The changes in the monetary base and net foreign assets followed closely with only small deviations. It is difficult to determine the level of orthodoxy for the currency board after its early years due to large gaps in data. However, it does appear from the tests that the Board operated in an orthodox manner for most of its existence.

Although this study gathered and digitized data from 1894 to 1976, there are several years when data are incomplete. The gaps may not affect the significance of the statistical tests, but possible future studies may want to gather the missing data and hence confirm the reliability of the current study.

Postscript: Companion Spreadsheet Workbook and Source Documents

The companion spreadsheet workbook to this paper contains the underlying data, calculations, and graphs. It shows both the graphs in the paper, which omit periods for which data are missing, and graphs that show where the gaps in the data lie. The workbook also contains some data not used in the paper. Data come from the *Government Gazette,* the Blue Books, and the annual reports of British Honduras published in London. For data of the currency board, preference was given to figures published in the *Government Gazette,* which were the most detailed. Gaps were filled with figures from the Blue Books and the annual reports, where available. The main source of publications was the Library of Congress. It should be possible to fill many of the gaps in data by locating the missing issues of the relevant publications in libraries in the United Kingdom or Belize, which it was not possible to consult for this paper.

Appendix. British Honduras Currency and Legislation, 1894-1976

Here, we provide a brief discussion of the legal framework of the British Honduras currency and legislation that related to the Board of Commissioners of Currency (see also Krus and Schuler 2014: 44-48).

- 1894: Board of Commissioners of Currency established by Ordinance No. 32
  - British Honduras dollar fixed to United States dollar: B$1 to US$1
  - Board controlled the issue of notes and rules; coins not included
  - Investments in sterling securities required a Depreciation Fund to cover fluctuations in the value of the reserves
- 1903: The Bank of British Honduras became the first commercial bank in the colony
- 1912: The Royal Bank of Canada purchased the Bank of British Honduras
- 1914: World War I gold convertibility informally ceased due to the movement of gold to the United States for safekeeping by the Royal Bank of Canada
- 1930s: U.S. dollar notes were used in British Honduras in unknown quantities
- 1937: Removed gold backing in reserves with Ordinance No. 2 of 1937
  - 1939: Finally excluded gold backing
- 1937: Ordinance No. 1: Note Security Fund replaced the Note Guarantee Fund
- 1940: Special Sterling Account in London operated by the Royal Bank of Canada to establish full convertibility between British Honduras dollars and sterling (still pegged to U.S. dollar, so the exchange rate with sterling fluctuated)
- 1949: Exchange controls established with U.S. dollar limiting full convertibility due to a strain on reserves
- 1949: Sterling devalued against U.S. dollar by 31 percent on September 18
  - Total fall in value of government accounts: B$1.5 million
  - Speculators began speculating against the British Honduras dollar
  - British Honduras broke link with U.S. dollar and devalued the British Honduras dollar on December 31
  - Delay and devaluation cost the value of the Special Sterling Account; speculators successful due to full convertibility with sterling (almost B$1 million lost)
- 1950: Switched to sterling as anchor currency at B$4 to £1
- 1958: Fiduciary issue of B$350,000 authorized
- 1965: Note Security Fund becomes the Currency Fund; coins are added to notes for reserve backing by the Board
- 1965: Maximum value of fiduciary issue increased to B$1 million
- 1967: Purchased domestic bonds worth B$500,000
- 1970: Total of domestic bonds increased to B$1 million with purchase worth B$500,000
- 1972: British Honduras becomes Belize; government granted authority to alter the rate of exchange with sterling (which itself began to float against the U.S. dollar)
- 1975: Ordinance allowed link with sterling to be cut
- 1976: Fixed to U.S. dollar again at rate of B$2 to US$1
- 1977: Board of Commissioners of Currency replaced by Monetary Authority

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