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Title: Currency, Banking and Politics: The Bank of England, Sterling and South Africa's Monetary System, 1914-1925.

by: Russell Ally

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CURRENCY, BANKING AND POLITICS: the Bank of England, sterling and South Africa's monetary system, 1914-1925.

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Introduction

> Of all the barometers capable of revealing to the historian the deeper movements of an economy, monetary phenomena are without doubt the most sensitive. But to look upon them as a symptom only is to do them less than justice: they have been, and they are, in their turn, effective causes. One might think of them as a seismograph that not only registers earth tremors, but sometimes brings them about.[1]

On the formation of Union in 1910, South Africa inherited an economy still under very powerful British domination. The banking system was under the control of the so-called imperial banks: for the most part British-owned with their head-offices and major stock-holders based in London. Virtually all the country's banking business was concentrated in the hands of the two largest - the Standard Bank and Barclays Bank - and it was the common practice for these banks to hold the greater part of their assets as overseas investments.[2]

While formally, along with the rest of the British Empire, on the gold standard, in practice the Union's currency formed part of - more accurately, was an appendage of - Britain's 'formal finance empire'.[3] This was the institutional matrix of exchange, trading and banking relations - known as the sterling-area system - which had begun to characterise the imperial economic system from about the first half of the nineteenth century. The way this system worked was that 'most countries in the Commonwealth, and many outside, [kept] their currencies stable in terms of sterling and [held] some or all of their

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[1] M. Bloch, 'The Problem of Gold in the Middle Ages' in M. Bloch, *Land and Work in Medieval Europe*, (London, 1967), p. 186.

[2] On the advent of imperial banking in South Africa see, V.E. Solomon, 'Money and Banking' in F.L. Coleman (ed), *Economic History of South Africa*, (Pretoria, 1983), pp. 139-40.

[3] I have adapted this term from P.J. Cain and A.G. Hopkins, 'Gentlemanly Capitalism and British Imperialism', Faculty of Commerce and Social Science Discussion Papers, University of Birmingham, Series D, No. 10, (September 1986), p. 21.

international reserves in the convenient form of claims in London'.[4] This subordination of the Union's currency to sterling was clearly demonstrated at the outbreak of the First World War, when South Africa followed Britain off the gold standard and directly tied its currency to sterling.[5]

Moreover, at the time of the making of Union the country's economy revolved around a gold mining industry effectively in the hands of imperial capital.[6] The leading mining houses were all British-based, raised most of their capital in the London stock-market, had their head-quarters and held their annual general meetings in London.[7]

The degree of dependency on the mining industry is quickly appreciated when it is realised that of the proceeds earned by the gold producers on the London gold market, more than two-thirds were required in South Africa for currency and wage purposes.[8] This made the mining industry a main source of revenue for the government, the principal contributor to the funds of the banks, and the biggest foreign exchange earner.[9]

Imperial capital's dominance over the mining industry was further reinforced by the fact that South Africa did not have a refinery and mint of its own. Consequently, the gold producers

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[4] L.S. Pressnell, '1925: The Burden of Sterling", *Economic History Review*, Second Series, 31 (February, 1978), p. 67.

[5] G. De Kock, *A History of the South African Reserve Bank, 1920-52*, (Pretoria, 1951), p. 9.

[6] Defining what is meant by imperial capital is a highly contentious matter. In this paper the term is used to distinguish capital which had its origins outside of the country from capital which had its origins inside the country itself. The former consisted mainly of capital involved in mining and banking, and the latter of capital involved in agriculture and small-scale manufacturing. Of course the divisions were never this clear-cut and absolute, and with the passage of time became more blurred. But in the early years of Union a case can be made for differentiating between these two forms of capital. For a discussion of this issue see B. Bozzoli, *The Political Nature of a Ruling Class, Capital and Ideology in South Africa 1890-1933*, (London, 1981), pp. 170-2.

[7] J.J. Van-Helten, 'Empire and High-Finance: South Africa and the International Gold Standard 1890-1914', *Journal of African History*, 23, (1982), p. 539.

[8] Bank of England Archives (hereafter BEA), C43/137, The London Gold Market, undated.

[9] Government receipts from mining averaged 7 per cent of its annual direct revenue between 1911 and 1930. R.V. Kubicek, 'Mining: Patterns of Dependence and Development 1870-1930' in Z.A. Konczacki, J.L. Parpart and T.M. Shaw (eds), *Studies in the Economic History of Southern Africa, Volume Two*, (London, 1991), p. 81.

were obliged to export all their bullion in its raw form to London, where it was dealt with by refiners such as N.M. Rothschilds and Sons, and then offered for sale on the London Gold Market. Any gold which remained unsold was bought by the Bank of England at the fixed statutory price of 77s 9d per standard ounce.[10]

Thus, almost at every level, South Africa's economy in the immediate post-Union years was structured in such a way that it serviced the needs and interests of imperial capital. Indeed, in many ways the country could be said to have been the 1910's equivalent of a 'banana republic'.

However, by the middle 1920s, a significant - if not dramatic change - had occurred. In 1921 South Africa established its own central reserve bank, which took over many of the functions of the Bank of England, and began to challenge the imperial banks domination of the money market. In the same year the country acquired its own refinery, and two years later erected its own mint, thus lessening its dependence on the London Gold Market.

Furthermore, at the beginning of 1925 South Africa took the decision to restore its currency on an independent gold basis, despite strong opposition from the British side that it should retain the link with sterling and time its return to the gold standard to coincide with that of Britain's.[11]

The country's dependence on a mining industry monopolised by British capital also came under challenge - both from within the mining sector itself as well as from other sectors of the economy. In 1917, the Anglo American Corporation of South Africa was founded, which self-consciously styled itself a 'South African company', registering in the country and inviting prominent South Africans to serve on its board of directors.[12] In turn, the manufacturing sector began to play an increasingly prominent role in the economy, later overtaking mining as the main contributor to the gross national product.[13]

Thus it is evident that between 1914 and 1925, South Africa's economy underwent an important and far-reaching transformation. From being a relatively narrow-based economy, dominated by the mining industry and subordinate to the interests

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[10] The usual procedure was that the various mining companies in South Africa would deliver their output to the main local banks, the Standard Bank and the National Bank, which then arranged weekly shipments of the unrefined metal to London. Rothschilds Archive London (hereafter RAL), T65/59, Memorandum on the Gold Market, 1937.

[11] The background to and significance of this decision is explained below.

[12] D. Innes, *Anglo American and the Rise of Modern South Africa*, (Johannesburg, 1984), pp. 91-2.

[13] D. Hobart Houghton, *The South African Economy*, (London, 1969), p. 121. Mining, however, remained (and still remains) the principal foreign exchange earner.

of imperial capital, it became a more broadly-based and diversified economy, with national capital beginning to challenge the hegemony of imperial capital.[14] The reasons for this transformation have been variously explained: the rise of Afrikaner nationalism in the form of Hertzogism;[15] a change in the power-bloc leading to the triumph of national capital over imperial capital;[16] the growth of local manufacturing, which was accompanied by a more pronounced 'South Africanist' ideology.[17] It is not the intention in this paper to deal with any of these arguments, which to a greater and lesser degree illuminate many of the processes which were at work. Rather, it is to turn the focus to an issue which is usually left out of the discussion: the role that monetary questions played in influencing the

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[14] Bozzoli usefully describes this process of transition, even if she does go beyond the period under discussion in this paper: 'The First World War finds us with an imperial system, dominated by mining capital, and dependent upon and defended by merchant capital, that had, in spite of itself, spawned a challenging national bourgeoisie, the realisation of whose interests implied the destruction of many facets of imperial hegemony. By the Second World War, by contrast, it seems that most would agree that many of the interests of the national bourgeoisie had indeed come to be realised, and that by implication, therefore, imperial hegemony had been ended, or at least severely undermined'. Bozzoli, *Political Nature*, p. 142.

[15] This is the favoured explanation among those who write within the so-called 'liberal framework'. Thus, Hobart Houghton, for example, writes about Hertzog's victory in 1924 as follows, 'The Pact government embarked upon a policy of encouraging manufacturing industries in order to provide a new field of employment for whites displaced from rural areas ...'. Hobart Houghton, *South African Economy*, p. 145.

[16] This version of the change is very popular in works influenced by Althusser and Poulantzas. See especially R. Davies, D. Kaplan, M. Morris and D. O'Meara, 'Class Struggle and the Periodisation of the State in South Africa', *Review of Political Economy*, No.7 (September - December 1976), pp. 4-30.

[17] Bozzoli tends in this direction. As she writes at one point in her study of the emergence of a national bourgeoisie in South Africa, 'National capital, by the *end* of the period under discussion [1930s], was also a class of great complexity, made up of industrialists, traders, certain mining companies, and farmers. But it was led by one of its sections - manufacturing. Just as mining capital had led and forged imperial hegemony, so did manufacturing capital seek to lead the process whereby the national bourgeoisie could replace the imperial one.' Bozzoli, *Political Nature*, p. 171.

direction and pace of the changes.[18]

Needless to say, monetary questions on their own cannot account for the profound changes that took place in South Africa between 1914 and 1925. However, when placed in the context of the political and socio-economic struggles taking place at the time, a study of these questions - often hidden from the surface - can, as Marc Bloch suggests, reveal a great deal to the historian about how - and sometimes even why - economies and societies evolve and change.

Early challenge to British domination

South Africa's position with regard to banking and currency on the formation of Union was perhaps the sharpest expression of the extent of its domination by imperial capital. The country's main commercial banks, as has been seen, were British-owned and firmly locked into the financial institutions of the City of London. As has also been pointed out, the tendency was for these banks to keep most of their assets as overseas investments. Consequently, decisions affecting monetary policy in the Union were quite often as much determined by the interests of imperial capital, as they were by considerations of what was in South Africa's interests. And even when the Union authorities did attempt to counter this strong imperial influence, their efforts were frustrated by the fact that the country did not have a uniform currency and banking system; each of the four provinces operating on the basis of their own currency and banking laws.[19]

With the outbreak of hostilities in 1914, South Africa effectively ceased to have an independent currency. To be sure, the Union government at the time had little choice but to link the South African pound to sterling. The impossibility of continuing the weekly shipments of gold to London because of the dangerous war conditions and the prohibitive insurance costs had presented the Union with a real threat of a collapse of its monetary system; especially given that the whole machinery of exchange rested quite heavily on the earnings from the export and sale of this gold in the London market. This notwithstanding, the fact still remained that once the war began, South Africa's currency became indistinguishable from sterling.

It should come as no great surprise then that an early skirmish between South Africa and Britain should have been over an issue relating to the currency question. This occurred shortly

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[18] A notable exception is S. Gelb, 'The Origins of the South African Reserve Bank, 1914-1920', in A. Mabin (ed), *Organisation and Economic Change*, Southern African Studies, Volume 5, (Johannesburg, 1989). However, largely missing from Gelb's work is a discussion of the relationship between politics and economics.

[19] For an account of these different currency and banking laws see E.H.D. Arndt, *Banking and Currency Development in South Africa, 1652-1927*, (Cape Town, 1928), pp. 420-1.

after the outbreak of the war when the matter of erecting a branch of the Royal Mint in South Africa arose.

The late South African Republic had established a mint in 1893 under a concession granted to the National Bank of the Republic by Kruger's government. This concession had subsequently been cancelled by the Transvaal Crown Colony Government, but the question of restarting the Pretoria Mint had remained a sensitive political issue; no doubt enhanced by the fact that it was Milner's administration which had shut it down.

But now with war having broken out, the Botha-Smuts government felt that South Africa should have its own mint in order to be able to deal with any contingencies that might arise; such as, for example, a shortage of specie because of the disruption of normal shipping. The Union's High Commissioner was accordingly requested to approach the British government to send a mint expert to South Africa to look into the viability of erecting a local mint.[20]

However, it was also apparent that the Union government was looking ahead to the role that it hoped the country would play in the region after the war, and that it saw the establishment of a mint in South Africa as integrating the country into the imperial economic system in a more effective way. After all, the Union had already occupied German South West Africa as requested by Britain - once again proving its loyalty to the imperial cause - and therefore thought it only natural that South Africa would be rewarded with greater responsibilities in the post-war Southern Africa. Nightingale from the Treasury explained the thinking behind this to the Colonial Office,

> It is assumed that the currency requirements of the country [South Africa] will expand considerably after the war. It is thought that, with the facilities available for obtaining bullion locally, a Mint established in the Union would be in a favourable position to supply the requirements of other Governments in Central and Southern Africa (where British interests are generally expanding) and also to mint gold for export overseas.[21]

Unfortunately for the Union government, its proposal to establish a local mint conflicted quite sharply with Britain's assessment of where its priorities lay. For, if the case could be made for the Union to have its own mint, then an even stronger one could be made for it to have its own refinery. Why send all the raw gold to London for refining, which greatly added to the costs of the gold producers,[22] only to have it brought back to the

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[20] BEA, C40/359, T.S. Nightingale, Treasury, to the Under-Secretary of the State, Colonial Office, 8 September 1916.

[21] ibid.

[22] Van-Helten has calculated that refining charges could often be as high as 10 per cent *ad valorem*. Together with the freight and insurance charges this worked out to between 14 and

country again for minting? As Bradbury of the Treasury pointed out to the Colonial Office,

> 'It [is] clear that as a necessary preliminary to the coinage of gold a refinery must be provided for the rough gold as it comes from the mines'.[23]

But, as has been seen, one of the reasons for South Africa being so dependent on the London gold market was because it did not possess any refining and minting facilities of its own. Thus, fearful that South Africa's self-sufficiency could threaten the position of the London gold market - made quite vulnerable by the outbreak of the war - the Bank of England strongly urged the Treasury to resist any departure from the existing method of minting sovereigns. It was 'the steady weekly flow of Raw Gold from South Africa to London for many years', the Bank's Chief Cashier explained to the Treasury, which had 'done much to maintain London in the proud position of the only free Gold Market of the world'. He went on,

> ... and it would seem that no suggestion should now be encouraged which would deprive London in even a moderate degree of this important source of Gold supply, a source upon which in future she may desire to rely in even greater degree than in the past.[24]

Pleading that the war had led to a depletion in its staff, and that it was therefore impossible to release any of the Mint's senior officers to visit the Union, the British government succeeded in convincing its South African counterpart to shelve the matter.[25] But this could never be more than a holding devise. Indeed, for the Nationalists, a country's power to coin specie, that is, issue its own currency, was seen as the touchstone of its sovereignty. Thus the demand for a local mint was to feature prominently in their political campaign against what they saw as South Africa's economic subordination to 'imperialist' Britain.

Breaking with sterling?

If during the war years Britain had been able to keep South

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15 per cent *ad valorem*, which whittled down the original value of an ounce of gold from 77s 9d to 70s. Van-Helten, 'Empire and High Finance', p. 538.

[23] BEA, C40/359, Bradbury to Colonial Office, 19 December 1916.

[24] BEA, C40/359, Chief Cashier of Bank of England to Secretary of the Treasury, 27 December 1916.

[25] BEA, C40/359, Bradbury, Treasury to Under-Secretary of State, Colonial Office, 19 December 1916.

Africa firmly within the imperial economic system, it was to discover that the changed conditions after the war seriously undermined its ability to control events in the Union. Like most of the other countries which had been involved in the fighting, South Africa also emerged from the war facing a serious economic crisis. That this came after a short-lived boom between 1919 and 1920, gave the slump a particularly severe character. Amongst some of the more urgent socio-economic problems Smuts's government found itself having to contend with were: the 'poor white problem'; the rehabilitation of agriculture; the development of secondary industry; and the future of the mining industry, especially the marginal mines.[26] These conditions were to provide fertile soil for a national sentiment to begin to take root in economic policy,[27] which Hertzog and his followers would not be slow to exploit.

Britain's position was not helped by the profitability crisis the Union's gold mining industry experienced in the aftermath of the war. Owing to increases in the costs of supplies, scarcity of labour, and a decline in the grade of the ore mined, many mines found themselves in danger of having to close down.[28] Particularly irksome to the Nationalists was that these threatened closures came despite the fact that the purchasing power of gold had been advancing all the time on the open market. Standing in the way of the South African gold producers realising these higher prices, however, was a special wartime selling agreement the Bank of England had concluded with the gold producers - still very much in force - which forced them to sell their gold to the Bank at the official price.[29] This meant that while other industries were able pass on their cost increases to the buyers of their product, the mining industry was having to absorb all its extra costs on its own because the price at which it could sell its product was being kept fixed.

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[26] D. Hobart Houghton and J. Dagut (ed), *Source Material on the South Africa Economy: Vol.3, 1920-1970*, (Cape Town, 1973), p. 89.

[27] It was in fact during these years that the so-called 'peoples banks' were established; which consciously aimed at improving the lot of the 'small man'. The first of these 'peoples banks' - *Ons Eerste Volksbank* - was founded in January 1917, and stated in its constitution that its object was 'to promote the social and moral welfare of the population of South Africa in general and of the inhabitants of Pretoria and suburbs in particular'. E.H.D. Arndt, 'Peoples Banks in South Africa', University of Pretoria, Series No.III: Arts and Social Sciences No.10, (May 1940), p. 4, emphasis added.

[28] BEA, C40/359, Buxton, Governor-General of South Africa to Secretary of State of Colonies, 22 May 1918.

[29] For a fuller discussion of the significance of this arrangement see R. Ally, 'War and Gold: the Bank of England, the London gold market and South Africa's gold, 1914-19', *Journal of African Studies*, Vol.17, No.2, (June 1991), pp. 221-238.

But it was not the gold question *per se* which triggered off the challenge to imperial domination. It was the issue of the monetary relations between the two countries. This happened as follows. Shortly after the outbreak of the war, Britain had pegged sterling to the dollar at the pre-war parity. The significance of this decision was that it kept sterling a gold-based currency even though Britain had formally abandoned the gold standard. For while there was an embargo on the export of bullion from the United Kingdom, and the immediate interconvertibility between sterling and gold was ended, gold exports were still permitted in the United States.[30]

But as the war drew to a close, Britain found it increasingly difficult to maintain sterling at its pre-war rate - involving as it did massive subsidisation -[31] and in March 1919 was finally forced to unpeg the sterling-dollar exchange. Until this action the link between the South African pound and sterling had been maintained without any serious tensions. De Kock explains why this was possible:

> The fact that during the whole of this period [the war years] the Union remained nominally on the gold standard, in so far as gold coin continued to circulate and the banks remained legally obliged to redeem their notes at par, **caused no trouble as long as sterling was maintained close to mint parity with the gold dollar.**[32]

The removal of the peg changed all this. Sterling declined sharply in value *vis-a-vis* the dollar,[33] and, as the South African pound was linked to sterling, it naturally suffered a similar fate. For a country so heavily dependent on imports as South Africa - and especially British imports[34] - the depreciation of the currency inevitably led to the unleashing of

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[30] For the background to this decision and its significance see ibid., pp. 225-6.

[31] Moggridge points out that the pegging of the exchange involved the use of substantial resources, official support totalling $2 021 between the financial years 1915-16 and 1918-1919, with quite considerable private support as well. D.E. Moggridge, *British Monetary Policy, 1924-1931, The Norman Conquest of $4.86*, (Cambridge, 1972), p. 17.

[32] De Kock, *History of*, pp. 10-11, emphasis added.

[33] The peg had been set at $4.76. By December 1919 sterling had dropped $3.85, and in February 1920 to as low as $3.33. BEA, C40/137, The London Gold Market, August 1937.

[34] At the time British goods accounted for over 50 per cent of South Africa's imports.

inflationary pressures.[35]

An outward sign that the Union's currency was in trouble was a marked disappearance of gold coin from the country. This was despite the fact that South Africa, following Britain's lead, had also imposed an embargo on the export of all bullion.[36] Yet, figures prepared by the Union's Treasury showed that from 1 April 1918 to 31 March 1920 specie to the value of £2 945 435 had left the country. Moreover, that the heaviest leakage had coincided with the lifting of the sterling-dollar peg in March 1919.[37]

The reason the country was losing its gold coin in such large amounts was because the depreciation in sterling's value meant that the gold content of the sovereign was now worth much more than its equivalent in paper money. In other words, while a sovereign was still only worth 20s in the Union, in the Indian Bazaars it could fetch as much as 38s 9d.[38] This made smuggling a very lucrative business, with people obviously quite willing to take big risks to circumvent the embargo.

Most put out by this drainage of gold coin from the country were the banks. For the embargo on the export of bullion did not exempt them from the legal obligation of having to exchange their notes for sovereigns at par. Thus the anomalous situation arose where the banks were paying more for gold coin than they were receiving for selling it. For in order to meet the increased demand for specie, as well as replace their own diminishing stock, the banks had to import gold coin from London at the premium price. Often this could as high as 28s, which they could not sell in the Union for more than 20s.[39]

Naturally the bankers found this situation intolerable and appealed directly to Smuts's government to make their notes inconvertible; that is, they wanted the complete suspension of the gold standard in South Africa. It was largely in response to this request from the bankers that Smuts's government agreed to convene a special Gold Conference in October 1919,

> in order that by a free exchange of views the best ways of safeguarding the interests of South Africa and of placing its currency on a natural basis might be

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[35] That much of the inflation was imported was undeniably true. For as De Kock points out, while the index of wholesale prices of South African goods only rose from 1083 in 1914 to 2249 in 1920, the index of prices of imported goods rose from 1106 to 3185 over the same period. De Kock, *History of*, p. 9.

[36] Proclamation No. 243 of 1914 issued under the provisions of the Public Welfare and Moratorium Act and its later amendments.

[37] S.C.2-'20, pp. vi-vii.

[38] ibid., p. 20.

[39] E. Cannan, 'South African Currency', *The Economic Journal*, Vol.XXX, (1920), p. 522.

found.[40]

The Gold Conference was in many ways to be the harbinger of what would later develop into an irresistible movement for South Africa's greater economic independence from Great Britain. Underlying its deliberations were essentially two questions: first, should the embargo on the export of gold be lifted; and second, should the Union break with sterling and re-establish its currency on a gold basis? There was a connection between these two questions in that a genuinely convertible currency was incompatible with any restrictions on the export of specie. Cannan explains,

> When a paper currency is convertible into free gold, it cannot go below its par with gold, because its convertibility limits the quantity of it which can be put into circulation: when it is convertible only into coin which cannot be used otherwise than as currency [that is, cannot be exported], it can be issued just as freely as if it were wholly irredeemable, and with the same effect on the general purchasing power of the unit of account.[41]

Predictably, the bankers came to the Gold Conference hoping not only that it would recommend the maintenance of the embargo, but that it would also support their proposal to make their notes inconvertible while sovereigns were still fetching such a high premium.[42] But as the Conference progressed, the bankers found themselves increasingly on the defensive. The direct implication of their proposal was that South Africa should retain the link with sterling and time its return to gold to coincide more or less with that of Britain's. However, the bankers had seriously underestimated just how much of a sensitive political and economic issue this was.

At the time that the Gold Conference convened, the country was experiencing some of its worst inflation, which was wiping out the savings of the middle classes and causing a general decline in the standard of living.[43] Given that South Africa imported the bulk of her consumer goods from Britain, it was easy to blame this inflation on high prices in the United Kingdom.

Preparing the ground for just such an attack, J.W. Jagger, a Unionist M.P. - but who also happened to be a prominent

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[40] U.G.18-'20, p. 1. The Conference sat for two days, 22-23 October 1919. Those invited to attend included the general mangers of the four main banks, representatives of the different political parties, and spokesmen for mining, manufacturing and agriculture.

[41] Cannan, 'South African Currency', p. 521.

[42] See the statement submitted on their behalf by Reynolds, the General Manager of the National Bank. U.G.18-'20, p. 15.

[43] See De Kock, *History of*, p. 9.

importer, and thus had a vested interest in a strong currency - declared in his opening remarks to the Conference,

> At the present time prices in South Africa were at the mercy of the United Kingdom currency vagaries. We suffered in South Africa largely as a result of inflation in England.[44]

This in itself would have been bad enough, Jagger went on, except that having abandoned the gold standard, Britain was not showing any real inclination to want to limit or control its issue of paper money. Instead, he contended, the British authorities were using the ending of official exchange support for sterling to recklessly enlarge the country's note issue:

> To-day in the United Kingdom there was no control over the issue of currency notes, they were issued by the Treasury, the same authority that spent the money. There was no relationship between any gold reserve and notes issued.[45]

A similar accusation was made against the banks operating in South Africa. A wide-spread feeling was that they had also exploited the fact that they were not obliged to provide gold coin for export during the war years to overissue paper currency and expand their credit.[46] But now that they were experiencing hard times, they had cut back drastically on their credit facilities. Thus, the bankers' proposal that the embargo be retained received as unfavourable a response as their suggestion that South Africa retain its currency ties with Britain.

Particularly aggrieved by the restrictions on the free export of gold were the spokesmen for labour. As far as they were concerned the embargo debased the value of sovereigns, thus robbing ordinary working people of the true value of their labour. F.H. Creswell the leader of the Labour Party, maintained that

> under the system in operation today any man in recovering payment of so many pounds in paper or sovereigns was defrauded of the real purchasing power of those pounds. He was not allowed to send it to America although he might get a good deal more goods

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[44] U.G.18-'20, p. 4.

[45] ibid., p. 2.

[46] Proof of this was that while the banks' liabilities had risen dramatically since 1914, the amount of bullion in their possession had remained unchanged. In fact, the ratio of notes and deposits to gold had actually come down from 19.5 per cent in 1914 to 6.7 per cent in 1919. S. Evans, 'The Gold Premium', *The Journal of Chemical, Metallurgical and Mining Society of South Africa*, Vol.XX, (May 1920), p. 211.

than in Cape Town.[47]

If the Gold Conference was opposed to the idea of retaining the embargo, then it was positively hostile to the bankers' further suggestion of introducing an inconvertible paper currency. Mr. van der Horst, M.P. in a Nationalist stronghold in the Western Transvaal, spoke of an 'upheaval' if the government were to attempt this. 'Go among the other classes of people to whom they had to rely on to support law and order', he advised, and the authorities would discover soon enough the strength of feeling against uncovered paper money. The priority for him was to bring down the cost of living. This meant controlling inflation, which was only possible on the basis of a return to gold. Thus he warned, 'Neither this government nor any other government would survive that tried to adopt an uncovered inconvertible paper currency'.[48]

The proposal to break with sterling and restore South Africa's currency on an independent gold basis had the political appeal of freeing the country's monetary system from direct imperial control. Jagger, for example, averred that for so long as South Africa's currency was 'governed' by 'English currency values' it did not matter what measures it took to stabilise its monetary situation, as this could all be undone by decisions taken in Whitehall.[49] Creswell was even more blunt,

> we were tacked on the monetary system of Great Britain and all the disadvantages that accrue from the inflated currency of Great Britain. We were simply another Province of Great Britain suffering from an over big issue of notes and suffering from the inflation of currency. It was the A.B.C. of the matter that had to be kept in sight.[50]

When at the end of the Gold Conference, Farrer, the Union's Minister of Finance, called for resolutions to be submitted, two clear positions emerged. On the one side were the National and Labour politicians, who held that it was in South Africa's interests to remove the embargo and return to gold at the earliest possible date. And on the other, the bank managers, who felt that it would be exceedingly dangerous for the Union to attempt to do this while the international monetary situation was still so unstable.[51]

But while those favouring a return to gold dominated the

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[47] U.G.18-'20, p. 11.

[48] ibid., p. 9.

[49] ibid., p. 4.

[50] ibid., p. 10.

[51] ibid., p. 14.

Conference, they were not able to get a clear majority.[52] The main reason for this was the reluctance of the mining industry to back their proposals. The Chamber of Mines, still very much under the influence of Central Mining and Investment Corporation,[53] clearly feared alienating the City of London, which was the risk that breaking with sterling and returning to the gold standard independently of Britain carried. More immediately, the mineowners did not want to lose the premium that had arisen on the sterling price paid for gold,[54] likely to happen if the South African currency was restored to mint parity. One of their spokesmen, Mr. French, explained in their defence that as 'several [mines] were just kept going to-day by the premium which gold was fetching', these mines would obviously have to be shut down if the premium disappeared.[55]

In the end it was left to Ernest Oppenheimer, Chairman of the recently established Anglo American Corporation of South Africa, to try and break the stalemate. Although Anglo at the time was still a relatively junior-ranking mining company, it was rapidly acquiring a prominent place both in the mining sector and South Africa's economy as a whole.[56] Particularly significant, however, was its stronger domestic base than the older mining companies and its closer ties with American capital, most notably J.P. Morgan of the banking firm of New York.

While more sympathetic to Jagger's proposal than he was to that of the bankers, Oppenheimer was enough of a realist to recognise that South Africa was not yet in a position to embark on a financial and monetary course of its own. The country did not possess its own mint and refinery, which meant that it would not be able to take full advantage of the premium on gold coin. But even more importantly, the banks in South Africa in their existing form were not capable of undertaking the exchange business necessary to maintain the currency on a gold basis. As he unflatteringly put it,

> [the South African banks] were like Provincial Stock Banks in England and their exchange merely amounted to

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[52] In fact, their motion was defeated by just one vote. ibid., p. 14.

[53] This was Lionel Phillips's company, which had very close links with leading institutions in the City of London.

[54] The price of gold in London increased from the standard price of approximately 85s per fine ounce to an average of 105s 3d per fine ounce, reaching a maximum of 127s 4d in February 1920. BEA, C40/137, the London Gold Market, August 1937.

[55] U.G.18-'20, p. 6.

[56] For an account of the rise of Anglo American and the dominant role it came to play in South Africa see Innes, *Anglo American*. A more journalistic account can be found in D. Pallister, S. Stewart and I. Lepper, *South Africa Inc., the Oppenheimer Empire*, (London, 1987).

> charging a commission and interest for the period of the bills of exchange.[57]

Thus the main task was to create the conditions that would make it possible for the country to take charge of its own financial affairs. That Oppenheimer succeeded in achieving the necessary consensus is evident from the fact that his motion won a majority of eight votes to five. In terms of this motion, it was resolved:

> (a) That the establishment of natural exchanges and of a free market for gold in the Union is desirable.
> (b) That to this end the establishment of a Mint and a Refinery should proceed with the utmost despatch.
> (c) That the Gold producers be requested to take steps to secure a modification of their selling agreement with the Bank of England so as to permit termination at short notice.
> (d) That the embargo on the export of specie from the Union not be continued after the establishment of the mint.[58]

On the surface this might have seemed like a compromise solution. The Gold Conference neither proposed the immediate lifting of the embargo, nor did it recommend the restoration of the gold standard forthwith. Taken as a whole, however, the motion represented a clear challenge to what was perceived to be South Africa's economic subordination to imperial Britain. The case for restoring South Africa's currency on a gold basis, even if this meant independently of Britain, had been forcibly put, and had been accepted in principle. Indeed, to facilitate as well as safeguard these first tentative steps towards greater monetary independence from Britain, the Conference passed a further resolution stating that it had

> been impressed with the necessity for one uniform Bank Act for the whole Union and would impress upon the Government the urgency of the introduction of such a measure in the next Session of Parliament, which should provide *inter alia* stringent provisions against the inflation of currency.[59]

What was also indisputable was that the bankers' scheme for an inconvertible paper currency had been roundly defeated.

A reversal in orientation

The Gold Conference's firm rejection of an inconvertible paper currency reflected the political unpopularity of any further weakening of the currency's gold basis. It was already felt that

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[57] U.G.18-'20, p. 8.

[58] ibid., p. 15.

[59] ibid., p. 15.

the embargo on its own had caused enough damage to the country's monetary system, with much of the opprobrium, as has been seen, being reserved for the banks. Thus, any suggestion that the banks could now be trusted with an inconvertible currency inevitably aroused strong antagonistic feelings. So much so that Smuts initially felt obliged to along with Gold Conference's resolutions. Speaking at his own party's conference in Pretoria a few weeks after the Gold Conference, he proclaimed,

> South Africa was the only country in the world where one could go into a bank a get gold in exchange for notes and cheques. The [Gold] Conference advised the Government to continue this gold currency and not to resort to notes. A gold currency was an immense source of strength, and upon that basis they must build up their industries. The Government agreed with these principles, and would proceed upon such lines.[60]

All the more surprising then that hardly three months later, Smuts's government made what amounted to a complete *volte* face. It not only agreed to retain the embargo, but also accepted in principle the need to withdraw all the gold coin in circulation and replace this with an inconvertible currency. What is even more remarkable is that this turnabout was in the face of what appeared to be growing support for the Nationalists on the currency question.

For sensing Smuts's vulnerability on this question, the Nationalists had embarked on an orchestrated political campaign against any type of inconvertible currency. Portraying his government as being in cohorts with the banks to swindle the 'small people', they used every opportunity to discredit the existing monetary arrangements. At times this came close to incitement against the banks. As the General Manager of the National Bank of South Africa reported very worriedly to the Secretary for Finance early in December 1919,

> At a largely attended Nationalist Meeting yesterday, the speakers included Mr. Tielman Roos and Revd. v.d. Horst M.L.A.; the latter warned his hearers against Bank Notes or 'Bluebacks' as he termed them. He assured his audience that if they presented our notes to this or that branch of the Bank, they would be unable to obtain gold for same and also that the Banks generally could not redeem their notes in gold if they required.[61]

This meeting took place in Zwartruggens, Western Transvaal, which

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[60] Quoted in Evans, 'The Gold Premium', p. 136.

[61] Transvaal Archive Department, Pretoria (hereafter TAD), TES/9/460/3, General Manager, National Bank of South Africa to Secretary for Finance, 2 December 1919.

had formed part of the heartland of the 1914 Afrikaner rebellion.[62] But that the Nationalists were also finding a receptive audience for their views in other parts of the country is evident from this account of the Assistant General Manager of the National Bank:

> ..... as one direct result of certain speeches recently delivered at Smithfield, O.F.S., by a prominent politician, a very esteemed client of our Springfontein, O.F.S. Branch - Senator E.R. Grobler - called on our local Manager on the 15th instant [December] with the intention of withdrawing his bank balance in gold. The cause assigned was the alarm he felt at the statements made by General Hertzog at his recent Smithfield meetings.[63]

In fact, Nationalist agitation against the banks became of such an alarmist nature that the Minister of Justice was called upon to intervene. Drawing the Minister's attention to a charge made by van der Horst in a public meeting in Maquassi, South-Western Transvaal, that the bank notes in circulation were no longer covered by either gold or silver, Reg. C. Read, a solicitor in the area, remarked,

> The result of this statement is gripping people's imaginations, and some silly person has now spread the rumour that the paper note is only worth 15/-. If this pernicious fallacy gets further I am afraid it might have serious results, which might spread through the Union. I know of many cases of persons demanding gold on van der Horst's statements ..[64]

But if immediately following the Gold Conference Smuts seemed to be going out of his way to appease the Nationalists, then by early 1920 it is evident that he had decided to take them head-on. Part of the reason for this change in his stance was undoubtedly a desire to put an end to the uncertainty which characterised the monetary situation. For even if an inconvertible paper currency was unpopular, it at least had the advantage of scotching the charge that his government had no policy when it came to currency matters. However, the question still remains, why did Smuts chose that particular monetary policy - especially given the political dangers he knew he was courting - and not another?

The key to the dramatic shift in policy is to be sought in

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[62] S.B. Spies, 'The Rebellion in South Africa, 1914-15', unpublished M.A. thesis, University of Witwatersrand, (1963), map on first page.

[63] TAD, TES/9/460/3, Assistant General Manger of the National Bank to Secretary for Finance, 19 December 1919.

[64] TAD, TES/9/460/3, Reg C. Read to Minister of Justice, 23 January 1920.

the role played by Henry Strakosch,[65] who was invited to South Africa by Smuts for further consultation on the country's exchange and currency problem after the Gold Conference had ended.[66] But having said this, it is important that Strakosch's role not be understood in the way that E.H.D. Arndt and others have presented it. According to Arndt,

> Strakosch came, saw and conquered, all in five short months. He arrived in January and left on June 4, 1920 and in the meantime he had conquered the Government, the Select Committee and apparently Parliament.[67]

Not only is this misleading, in that Strakosch's triumph was not as absolute as Arndt implies, but it has the further weakness of reducing the reversal in policy to the actions of one individual. Certainly, Strakosch's arrival in South Africa was to prove decisive; especially in convincing Smuts against following the advise of the Gold Conference. But in order to properly understand how Strakosch was able to accomplish this, it is necessary that he be seen in relation the balance of forces existing at the time.

Strakosch represented powerful interests. He was the

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[65] Strakosch was of Central European origin. He began his career in London as a foreign exchange dealer. Later he became Managing Director of the Union Corporation, a holding company with extensive foreign investments, most notably in South Africa, where it controlled several mines. He was made Britain's representative on the League of Nation's Financial Committee and also served as an economic advisor to Smuts's government. This placed him in the position of unique intermediary between the Bank of England and the South African authorities.

[66] Smuts initially tried to get Keynes to come to South Africa, who he had met during the war in Britain and had struck up a good friendship with. Keynes, however, was not available and suggested Strakosch in his place. J. Van der Poel (ed), *Selections from the Smuts Papers, Vol. V, September 1919 - November 1934*, (Cambridge, 1973), p. 29.

[67] Arndt, *Banking and Currency*, pp. iv-v. S. Evans says something similar: 'Early in January 1920, there appeared on the scene a superior practical mind in the person of Mr. ... Henry Strakosch. Sir Henry possesses persuasive powers of no mean order ... He was consulted by the Union government, and he confirmed the advise the bankers, namely, .. that it would be a grave mistake to remove the embargo ..... and that in order to protect the reserves of the banks ... gold should be taken out of circulation and replaced by inconvertible currency. S. Evans, 'The Gold Premium, Reply to a Discussion', *The Journal of the Chemical, Metallurgical and Mining Society of South Africa*, Vol. XXI, No.8, (February 1921), p. 136. Evans was the chairman of the mining company, Crown Mines, and strongly believed that South Africa should restore its gold currency, even if this meant independently of Britain.

Managing Director of a leading mining house, Union Corporation, and had a long and intimate association with the City of London. He was also close to Montague Norman, the Governor of the Bank of England, and enjoyed the confidence of many in the Treasury and others - like the Rothschilds - who were influential in British monetary circles. These interests clearly did not wish to see South Africa restore its free market in gold and return to the gold standard while Britain was not yet in a position to do likewise. There were two main reasons for this.

In the first place, the Bank of England had as recently as July 1919 signed a new selling agreement with South Africa's gold producers which explicitly restricted the sale of South Africa's gold through the London gold market. This need to control the disposal of South Africa's gold was seen as vital given that New York was beginning to challenge London's position as the world's main gold market. Thus, the British authorities were extremely apprehensive about South Africa being free to dispose of its gold as it chose.[68]

Of even greater concern was the potential long term consequences of South Africa re-establishing its currency on a gold basis while sterling still remained below parity. The fear was that with South Africa on the gold standard, the natural tendency would be for it to be pulled closer to the United States, which at the time was the only other country with a gold currency. As a contemporary South African economist observed at the time:

> there are indications that American financiers are taking an interest in the development of [our] mineral resources .... Unless however our currency is soon restored to the gold standard basis, we cannot expect that much capital will come from the U.S.[69]

Strakosch's central concern on accepting the invitation, therefore, was to keep the country within the imperial economic system; which meant preserving the close financial and currency links with Great Britain, and not, as was being advocated by the Gold Conference, unilaterally breaking these links. He arrived in South Africa well prepared for his task -having been asked earlier by Smuts to prepare a pamphlet on South Africa's currency and monetary situation.[70]

The main thrust of his intervention was to highlight the

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[68] For a more detailed account of the significance of the July 1919 Agreement see R. Ally, 'The Bank of England and South Africa's Gold Producers, 1886-1926', unpublished Ph.D. thesis, Cambridge University (May 1990), pp. 89-143.

[69] Quoted in Gelb, 'Origins of South African Reserve Bank', p. 17.

[70] H. Strakosch, 'The South African Currency and Exchange Problem', (Johannesburg, 1920). The main portion of the paper, together with its conclusions, was presented to Smuts towards the end of January 1920.

disaster that South Africa was inviting upon itself by believing that it could restore its currency on a gold basis independently of Britain. This emphasis was not accidental. The Gold Conference had presented the return to gold as a panacea for all the country's economic woes. Thus, if Strakosch hoped to reverse this orientation, he had to prove the opposite.

He did not dispute that a currency based on the gold standard was the 'soundest and best policy'.[71] What he challenged, however, was the notion that this policy could be implemented without regard to the world conditions at any particular time, or to the specific way in which a country had been incorporated into the system of international finance.[72]

Rejecting the charge that South Africa's monetary problems had their origins in the link with sterling, Strakosch maintained that inflation and high prices were a world-wide phenomenon, and not something peculiar to any one country. And the reason for this, he insisted, was not simply because the world's currencies were no longer on a gold basis, but because the war had destroyed the pre-1914 patterns of international trade.

Turning to South Africa's specific situation, he contended out that as the country had a net balance-of-payments deficit, this put into serious question

> whether, in the existing extraordinary conditions, and having regard to South Africa's economic position and activities in relation to the rest of the world, it can afford to re-establish and maintain its currency on a true gold basis.[73]

Worse still, as gold coin was fetching as much as 38s 9d in the Indian Bazaars, sovereigns would only be able to circulate safely in the Union if its currency was maintained at parity with these abnormally high prices. Otherwise the country ran the risk that immediately it lifted the embargo and returned to gold, it would lose all its specie, either through massive exports or hoarding.

The United States was a case in point. It was the only major economic power which still permitted the free import and export of gold, and its gold reserves were under constant pressure because of the high premium on sovereigns. How much more then the reserves of a small economy's like South Africa's with a much

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[71] Strakosch, 'South African Currency', p. 12.

[72] Insofar as Strakosch belonged to any school of thought on monetary theory, it was the 'banking school' as opposed to the 'currency school'. The former were characterised by a far more pragmatic and flexible approach to monetary and currency questions than the latter. Thus, Evans's - a staunch supporter of the currency school - outburst: 'Like other celebrated inflationists, he [Strakosch] worships at many shrines. He admits several of the first principles of currency, but declines to apply these principles to our case'. Evans, 'Reply to a Discussion', p. 138.

[73] Strakosch, Currency and Exchange, p. 12.

weaker currency?

> For South Africa, in the world conditions as they exist to-day, to venture upon a course which would compel it to share alone with the United States of America the burden of supplying the insatiable demand for gold the world over is clearly an experiment of a most hazardous kind.[74]

The country's problems would not end here. For if South Africa did appreciate its currency to par, and sterling still remained below par, British creditors, finding that their loans to the Union were suddenly worth much more, would call in these loans, convert them into their own currency and export the profits. Thus, in no time at all the country would not only find itself denuded of all of its gold reserves, but also drained of most of its British capital.[75]

Strakosch therefore not only called for the retention of the embargo, but insisted that on its own this was not enough. '[So] long as a sovereign is exchangeable for more than 20s in Union currency', he argued, 'so long will it disappear from circulation'. Thus, he held,

> Action of a much more positive and comprehensive kind than the mere prohibition of export of coin is ... needed to put the currency of the country and its credit structure on a safe footing.[76]

The 'more positive and comprehensive' action envisaged by him was the withdrawal of all gold coin from circulation and its replacement with specially created 'Treasury Gold Certificates'.

> 'The effect of such a scheme', he explained, 'is to make the Government, so to say, the guardian of the country's gold currency during a time in which its free circulation is endangered by the extraordinary world conditions'.[77]

The impact of Strakosch's pamphlet on Smuts's government was indeed profound; and shortly after his arrival in the country he helped to draft three Bills in collaboration with the Treasury, which were based almost entirely on his recommendations:

> (1) To conserve the Specie Supplies of the Union by providing for the issue of Gold Certificates;
> (2) To provide for the establishment of a Central Reserve Bank for the Union; and

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[74] ibid., p. 16.

[75] ibid., p. 19.

[76] ibid., pp. 10-11.

[77] ibid., p. 30

(3) To consolidate and amend the laws in force relating to Banks.[78]

It is not clear to what extent Smuts actually agreed with Strakosch's economic analysis. But he had little difficulty appreciating the political implication of Strakosch's proposals. This was basically that in maintaining its currency and financial ties with Great Britain, the Union would remain an integral and vital part of the British Empire. Smuts, with his heightened sense of the virtues of imperial unity, and genuine belief that South Africa's interests and future lay in the strengthening and not dismembering of the Empire, could thus readily identify with this aspect of Strakosch's advice.[79]

Marching together with sterling

Strakosch might have won Smuts over to his side, but he still had to overcome the Union's Parliament before his proposals could be translated into official government policy. In March 1920 it appointed an all-party Select Committee to enquire and report upon:

(a) the effect of the embargo on the export of specie upon the cost of living; and
(b) the desirability and practicability or otherwise, with a view to improving the economic conditions of the Union, of removing the embargo and of modifying the statutory provisions at present in force in regard to currency and banking.[80]

Edwin Cannan, who like Evans was also a champion of the currency school, no doubt exaggerated for polemical purposes when he claimed that this Select Committee was 'like clay in the hands of .... Strakosch'.[81] But he was not far from the truth. Not only was Strakosch the Committee's only witness for the first nine days, but he also attended all its meetings until his departure for England on 4 June 1920. He was allowed to read as evidence before the Committee his pamphlet on South Africa's currency and exchange situation, and was the only witness afforded the opportunity of listening to and replying to the evidence of the other witnesses.

During his questioning Strakosch again made great play of the disastrous consequences that would follow if South Africa prematurely lifted the embargo and returned to a fully-fledged gold standard. Some of his graver warnings went as follows:

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[78] De Kock, *History of*, p. 14.

[79] On Smuts's commitment to the imperial cause see W.K. Hancock, *Smuts, The Fields of Force 1919-1950*, (Cambridge, 1968), pp. 3-20.

[80] S.C.2-'20, p. iii.

[81] Cannan, 'South African Currency', p. 524.

> The removal of the gold embargo would impede production, and it would foster importation, reduce our exports, and would lead to a withdrawal of capital from this country.

And,

> If you allowed the free export of gold, I have no doubt that every sovereign will disappear. The country would be completely denuded of currency.

And again,

> If we have a rapid return to gold parity it will bring disaster; it will result in severe crisis; it will lead to a complete breakdown of credit and all our activities; our industries and trade will be enormously restricted; and thousands will be thrown out of employment.[82]

But it would be quite wrong to portray Strakosch's intervention as simply a negative one. For he skilfully combined his prophecies of doom with promises of prosperity and stability were his proposals to be implemented.

A potentially highly divisive issue at the time was the great difficulty that the wool farmers - the country's biggest exporters after the gold producers - were experiencing in getting the banks to finance their export business. This had enormous political implications as the wool farmers carried considerable electoral weight. Deflecting the criticism away from the banks, Strakosch argued that if the drainage of the banks' gold reserves were stopped - which his gold certificate scheme provided for - there would no longer be a reason for them to restrict their credit facilities as the funds that would otherwise have been necessary to replenish their gold stocks would now be available to promote not only agriculture, but also local manufacture. However, the first step, he insisted, was to 'secure the banks from the withdrawal of their reserves'.[83]

The report which the Select Committee eventually laid before the House of Assembly could have been written by Strakosch himself, so closely did it follow his line of argument. It repeated with little qualification his assertion that the movement of the exchanges was governed by the law of supply and demand, and not, as the Gold Conference had suggested, by currency inflation. It therefore followed that until South Africa's trade position improved, the government had no choice but to retain the restrictions on the free movement of gold. In the Select Committee's words:

> The Banks and other witnesses impressed upon your Committee the imminent danger, if the embargo were

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[82] Cited in Evans, 'Reply to a Discussion', pp. 145-6.

[83] S.C.2-'20, p. 32.

> removed, of the Union being completely denuded of its specie reserves and your Committee is so impressed with the reality of this danger that it is not prepared to face the responsibility of recommending the removal of the embargo, especially in view of the inadequacy of the reserves at present.[84]

Furthermore, accepting Strakosch's argument for a temporary inconvertible currency, the Committee gave its complete backing to his gold certificate scheme.[85]

In effect, the Select Committee was endorsing the bills which Strakosch had drafted in collaboration with the Union's Treasury. These were later consolidated into one bill, and formed the basis of what in August 1920 passed into legislation as the Currency and Banking Act (Act No. 31 of 1920). That Strakosch had succeeded in achieving the immediate objectives of the interest groups he represented is clear from the provisions of the Act. For the Act, *inter alia*, retained the embargo on the export of gold, made bank notes legal tender and non-convertible, and provided for the issue of inconvertible gold certificates.

For the mining companies - especially the poorer grade mines - the premium on the sterling price for gold had become a vital life-line. To be sure, the long-term interests of the gold producers lay in the restoration of the gold standard, as this would guarantee that there would always be a market for their product. But while the premium lasted, they preferred that the South African pound did not appreciate against sterling.

Retaining the embargo and introducing an inconvertible currency also suited the banks. This was in fact what they had been demanding ever since specie began to disappear from the country, but were unable to accomplish on their own because of public hostility towards them and suspicion as to their real motives.

But the real beneficiaries were the Bank of England and the City of London. For by delaying South Africa's return to gold until Great Britain was in a stronger position to restore sterling to mint parity, the threat of a break-up of the imperial exchange system was minimised. Strakosch had clearly rendered a valuable service to the interest groups he represented.[86]

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[84] ibid., p. vii.

[85] ibid., p. x.

[86] Even if Evans was not all that appreciative of Strakosch's skills: 'Obviously he was just the kind of adviser they [the Union government] had been looking for. They wanted a weather prophet who would at any rate promise to make rain, not a scientific meteorologist who would not even make promises. .... In matters of currency investigations, Governments and Parliamentary Committees often act like Kaffir tribes and some company promoters; they employ preferably experts who will support their own pet policies'. Evans, 'Reply to a Discussion', pp. 137-8.

Straining at the leash

In later years some of South Africa's economists would turn back to the early 1920s as an example of when the country, as the main gold-producing Dominion, was in the unique position to lead not only the British Empire, but also the rest of the world back on to the international gold standard. According to Arndt, however, 'in the typical "alles sal reg kom" fashion, it let England assume the actual leadership', and thus squandered a great opportunity.[87]

Whether or not South Africa would have been able to assume such leadership is a moot point. However, it is misrepresenting the case to portray the Union as simply having being led by the nose. Strakosch's principal aim was to convince the South African authorities that the country's interests would be best served by timing the return to gold to coincide with that of Britain's. To this end, he was firmly opposed to any time-limits being placed on the maintenance of the embargo or his scheme for an inconvertible currency.

> 'It is impossible for any human being to say when the trade of the world will be in a state of balance', he insisted in his evidence before the 1920 Select Committee, 'and that is why I say no man can foretell at what time we shall be in a position to revert to the gold standard'.[88]

However, the political opposition to South Africa leaving the gold standard was so strong, that Smuts's government was only able to get the Currency and Banking Bill through the committee stage of parliament by agreeing to fix definite dates when **both** the embargo and the provisions for an inconvertible currency would lapse. Acknowledging as much in a speech to the House of Assembly in June 1920, Henry Burton, the Minister of Finance, said that while his government did not approve of fixing time-limits, 'it was a concession which he [had to] make to meet the wishes of parliament, reluctantly and very much against his better judgement'.[89]

Indeed, while Britain's restrictions on the free export of gold were not due to expire until 31 December 1931 - and therefore by implication, Britain's return to gold[90] - South

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[87] Arndt, *Banking and Currency Development*, pp. iv-v.

[88] Cited in Evans, 'Reply to a Discussion', p. 145. On another occasion, he said, 'It would .... be a mistake to remove the embargo on the export of gold or to attempt to fix any date for its removal'. ibid., pp. 145-6.

[89] ibid., p. 140.

[90] This was in terms of the Gold and Silver (Export Control Act), promulgated in 1920. See D.E. Moggridge, *British Financial Policy 1924-1931: The Norman Conquest of $4.86*, (Cambridge,

Africa set as its date for the inconvertibility of the gold certificates to lapse the 30 June 1923. The Union government further agreed to carry out the Gold Conference's recommendation and lift the embargo immediately the mint came into operation. Thus, the question of whether South Africa's restoration of its gold currency after 30 June 1923 would still depend on when Britain decided to return to gold, or whether South Africa would go ahead and re-establish its gold standard after this date regardless of what happened in Britain, was still far from having being settled with the passing of the Currency and Banking Act.[91]

It is true that a later Currency Conference was to extend the period of inconvertibility to 30 June 1925.[92] But again this was not without qualifications. It was stressed that the prolongation of the inconvertibility of paper money was contingent upon inflation being kept under control, and that

> should the market price of gold in the Union at any time within that period [30 June 1923 - 30 June 1925] fall to Three pounds seventeen shillings and tenpence halfpenny, or less, per standard ounce [that is, should sterling sharply depreciate], and so continue for a period of thirty days, the power of the Governor-General to suspend the redemption of Gold Certificates shall automatically lapse.[93]

In other words, South Africa's preparedness to continue to follow

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1972), p. 23

[91] More recently, Gelb has also overstated the extent of Strakosch's victory. According to him, 'This reversal of perspective [that of the October Gold Conference] distinguishes the second phase of monetary re-structuring from the first. The banks' immediate interests now predominated, having become identified with the general interest (of the capitalist class at least). Linked to this, there was a shift in focus from inflation as the central monetary problem, to the monetary effects of the gold premium and its possible elimination; the shift, in other words, was from a primary concern with the internal monetary relation to concern with the external monetary relation'. Gelb, 'Origins of Reserve Bank', pp. 57-8. The continuities and discontinuities in policy were however more nuanced than this assessment allows for. For one, the bankers did not get their own way on every question. They were opposed to the establishment of the South African Reserve Bank, which the 1920 Currency and Banking Act also provided for. More immediately, like Strakosch, they would also have preferred a firmer commitment from the Union to tie the pound's return to parity to that of sterling's.

[92] U.G.9-'22, Report of the Currency Conference held at Pretoria, October 1921, p. 1.

[93] ibid., p. 2.

Britain's lead in returning to gold was made strictly dependent upon the British government honouring its commitment to do everything in its power to restore sterling to mint parity.[94]

Also, while the Currency Conference did postpone the return to gold, it was not able to achieve the same result with regard to the embargo. The Pretoria Mint was by now close to completion, and the Conference therefore felt obliged to set as a definite date for the lifting of all restrictions on the export of gold the 1 July 1922.[95] This was an ironic twist to the situation that had existed immediately after the war. Then notes were convertible, but gold coin could not be exported. Now notes were inconvertible, but the export of gold coin would be permitted. On one level this could no doubt be interpreted as a sop to Nationalist and Labour supporters, but on another, it was an important symbolic victory.[96]

The South African pound comes of age

The case for South Africa to break with sterling and restore its currency on a gold basis had always been fuelled by a strong nationalist sentiment. Underlying it was the assumption that the country could only be said to be truly independent once it had control over its own monetary policy. Only then, it was held, would it be in a position to pursue an economic policy that was in its own interests and not subordinate to imperial considerations. Consequently, opposition to maintaining the link with sterling also included the call to terminate the preferential selling arrangement the Bank of England had made with South Africa's gold producers; demands for a local refinery and mint; and agitation for a State Bank that would provide the necessary funds for the development of local industry and agriculture.

The question, therefore, of whether or not the contrary view was to prevail - that the nature of the economic links between the two countries made it more desirable for South Africa 'to march as far as possible in step with Great Britain on the road towards an effective gold standard',[97] did not depend entirely on the strengths of its economic analysis. It also needed a government in South Africa sympathetic to preserving the British connection; which is what the British authorities by and large found in Smuts's Dominion-oriented government.

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[94] Commenting on this provision two years later, Clegg, Governor of the Reserve Bank, was to remark that in his opinion this was a distinct weakness in the 1921 Currency Conference's report. S.C. 1A-'23, p. 186.

[95] U.G.9-'22, p. 2.

[96] The recommendations of the 1921 Currency Conference were incorporated into the Currency and Banking Amendment Act (Act. No.22 of 1923).

[97] BEA, OV37/21, Strakosch to Clegg, 9 January 1924.

With the accession to power of the Pact government in June 1924, however, the balance of forces began to shift against the kind of monetary relationship which imperial Britain favoured. Yet, even though they were to make common cause on the currency question, the Nationalist and Labour parties came to the rejection of the Union's currency arrangements with Britain from different angles. For the Nationalists, it was the political considerations which loomed largest. Freeing the Union's currency from the dominance of the imperial exchange system was for them the complement to achieving greater political autonomy within the British Empire.

Labour, on the other hand, was more predisposed to remaining part of the Empire. In fact, as a condition of the alliance, the Nationalists agreed that 'if returned to power they would not, during the life of the next Parliament, use their vote to upset the existing constitutional relationship of South Africa with the British crown'.[98] But as Labour saw it, money wages that were not directly convertible into gold could easily lead to the working person being swindled. For unlike the gold content of the sovereign - which was a fixed value - an inconvertible paper currency could be fiddled with, especially if it suited the purposes of the employing classes.

Thus, one of the first important acts of the Pact government after taking office - in keeping with its election promises - was to appoint a commission to advise on the Union's breaking with sterling and re-establishing its gold currency. To the Bank of England's dismay, which in the past had always been consulted when crucial questions such as these arose, Hertzog's government chose to call upon advisors not connected in any way to Britain's financial institutions. Thus, E.W. Kemmerer, Professor of Economics and Finance at Princeton University, United States, and G. Vissering, President of *De Nederlandsche Bank*, Amsterdam, were invited

> to visit the Union and to investigate the question of the restoration of the gold standard by the Union independent of the United Kingdom.[99]

There was of course a perfect logic to Hertzog's actions, which even Norman, the Bank's Governor, was forced to recognise after he had overcome his initial shock.

> 'The Hertzogites when in opposition', he wrote to Clegg, Governor of the Reserve Bank, 'made no end of promises about a State Bank and gold and all the rest of it .... It is quite clear that the advisers of the last Government can, under no circumstances, give them help. On the other hand, an eminent Dutchman and a cranky American might give precisely the same advice as was given to the last Government in such a way that

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[98] J. Fisher, *The Afrikaners*, (London, 1969), p. 254.

[99] U.G.13-'25, Report on the Resumption of Gold Payments by the Union of South Africa, p. ix.

> the present Government could decently eat its words and follow the advice'.[100]

Political reasons certainly played a big part in whom Hertzog chose as advisors. With Kemmerer this was perhaps less the case. By the time he visited South Africa, he had already established an international reputation as a leading financial advisor, which was later to earn him the title "money doctor". But what was very significant about this choice was that Kemmerer was a known advocate of the policy of monetary stabilisation via the gold standard.[101]

Vissering's appointment, however, left no room for ambiguity. As the President of the Bank of Netherlands, he appealed directly to the Dutch-heritage and sensibilities of the Afrikaners. Not surprising then that Strakosch decried the Vissering-Kemmerer Commission as little more than 'the desire of the Government to curry favour with the extreme supporters in the Nationalist party ..'.[102]

So concerned in fact was Hertzog's government to be seen as untainted by imperial considerations, that it decided to exclude Clegg - who before becoming Governor of the Reserve Bank had been the Bank of England's Chief Accountant - from direct involvement in the Commission's proceedings. As Clegg accounted to Norman,

> Mr Havenga [Minister of Finance], told me that he, personally, was in favour of associating me with the Commission, but he was overruled by the rest of the Cabinet, which thought that even I might be considered by a section of the public as having an interest in the question being settled one way or the other.[103]

Kemmerer and Vissering were unanimous that South Africa should restore its currency on a gold basis immediately the gold certificate scheme lapsed, and not first wait and see what happened in Britain. While certainly not blind to the risks involved in a complete break with sterling, they believed that conditions in the country were never more favourable for a return to gold. The currency was already close to mint parity - where it had been for the past two months - which meant that hardly any sacrifices would be necessary to return formally to gold. In addition, the country was in a very 'strong gold position', with the Reserve Bank carrying a gold reserve of over £10 million - representing 64 per cent of its notes and deposits - and the main commercial banks holding substantial sterling balances in

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[100] BEA, OV37/21, Norman to Clegg, 27 October 1924.

[101] B. Dalgaard, *South Africa's Impact on Britain's Return to Gold*, 1925, (Illinois, 1981), pp. 2-3.

[102] BEA, OV37/21, Strakosch to Clegg, 29 October 1924.

[103] BEA, OV37/21, Clegg to Norman, 26 November 1924.

London.[104]

Moreover, South Africa possessed the infrastructure necessary not only to restore its gold currency, but also to keep it at mint parity. It had its own refinery and mint, which could provide all the specie required for the country's internal needs and for export. And even more importantly, it now boasted a central reserve bank - with the exception of the Bank of England, the only central bank in the Commonwealth - which would be able to exercise a moderating influence on the money market and check any dangerous inflationary tendencies.[105]

Kemmerer and Vissering had hardly submitted their report, when Hertzog's government announced its intention to implement it in full.[106] Having grown accustomed to important decisions of this kind first going through a long process of debate and discussion, *The Star* - which favoured a simultaneous return to gold with sterling - bemoaned what it saw as indecent haste on the part of Hertzog's government:

> It might have been expected that the Government would have delayed coming to a decision till the report had been published, and that even with the report before them they would have consulted a conference of representatives of the various interests involved, such as met when the Act of 1920 was introduced and again in 1923 when the question had to be considered of renewing the section under which the gold certificates were made inconvertible. This, however, has not been done.[107]

But *The Star* clearly did not grasp the issues that were at stake. For the secession-minded Nationalists, endorsing the recommendations of the Vissering-Kemmerer Commission was something more than a question of monetary reform. Indeed, at the heart of their decision - embracing and transcending the gold question - was their struggle to achieve political independence from Britain. Given the existing currency and monetary relations between the two countries, it was unavoidable that this struggle would be waged in terms which implied a financial break with London.

Summary

The extent of imperial capital's dominance over South Africa's

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[104] U.G.13-'25, pp. xv-xvi.

[105] ibid., pp. xxvii-xxviii.

[106] BEA, OV37/21, Reserve Bank to Bank of England, 13 January 1925.

[107] *The Star*, 20 January 1925.

economy at the time of the formation of Union inevitably raises serious questions about the content of the country's political independence in 1910. Put another way, can a country be said to be truly independent and sovereign while it does not exercise any real control over its economic policy? This is not to deny that the making of Union was of far-reaching political significance. Yet, it is also evident that the unified state which emerged in 1910, far from representing the triumph of national interests over imperial interests, did much to safeguard British supremacy in South Africa. This extremely complex and contradictory situation has been recognised and commented upon by various historians. What this paper suggests is that our understanding of Britain's continued domination over South Africa - even after the country had formally gained its political independence - and the challenge which took place to imperial capital's hegemony during the period 1914-1925, can be enhanced by looking at the way in which South Africa was incorporated into the imperial economic system - particularly with regard to such crucial and sensitive matters as currency and banking.

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