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Title: The Exercise of Control in the Diamond Industry of South Africa: Some Preliminary Remarks

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THE EXERCISE OF CONTROL IN THE DIAMOND INDUSTRY OF SOUTH AFRICA: SOME PRELIMINARY REMARKS

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Preface

This paper was written in the very early stages of my research into the gold and diamond industries in South Africa. The sources used for much of the material on which the paper is based were, in the main, obtained from the standard literature available on the subject, though the treatment accorded to this material was my own. However, the use of these secondary sources alone has meant that my investigations have been confined to certain areas of the subject matter only, while I have been forced to "ignore" other areas which I feel to be important. As a result I have not been able to develop some of the arguments in the paper to the extent that I might have wished.

A) The Background

"Gentlemen, this is the rock on which the future success of South Africa will be built" (Colonial Secretary, 1867)

Though the diamond industry would, after a relatively short period of its life, be eclipsed by the gold industry in South Africa, the discovery of diamonds on a large scale ushered in a period of wealth and prosperity which altered the social history of the country in a dramatic way. Apart from the direct wealth produced by the industry (by 1936 over £320m worth of diamonds had been produced in South Africa)[1], the diamond mining industry encouraged the development of a large-scale infrastructural network both within the country and between South Africa and Europe.[2] For instance, by the time the railway system had reached Kimberley over £14m (or 60% of the Public Debt) had been invested in it by the Colonial Government, indicating the importance it attached to diamonds to provide the wealth of the Colony in the future.

Before examining the evolution that occurred within the industry itself it would be useful briefly to outline the state of the world economy over this early period. The early industrial dominance of Britain (during the period from about 1780 to 1840) had given way to a period of intense international competition between Britain and the more recently industrialised powers (such as France, Germany and the USA), in which Britain with a more obsolete technology and an inability to adapt to new technical demands, became increasingly the loser.[3] Unable to sustain her high level of exports to these new industrial centres (as a result of their 'Protectionist' policies) and because of her need for primary products, Britain began increasingly over this period (1840 - 1880) to turn her attentions to the, as yet largely, undeveloped parts of the world.[4] At the same time, there was a dramatic increase in the international flows of capital, trade and labour.[5] By the 1870's interests and dividends on capital invested abroad were Britain's most important sources of foreign exchange (this trend reflected the rise of the City of London as the new financial centre of the world) and their importance was growing. In particular, it was the 'white' dominions of Canada, Australia, New Zealand and South Africa which received the greatest share of this investment - from 12% in the 1860's to almost 30% in the 1880's. (After the First World War the share of the Dominions became even more important -

taking almost 40% of Britain's total foreign investment.)[6] Of the total British foreign investment by public issue in 1914 (£3,765.3m), South Africa alone received £370.2m (9.8%). Only the USA (£754.6m), Canada (£514.9m), Australia and New Zealand (£416.4m) and India and Ceylon (378.8m) received larger shares.[7]

It is sufficient then to note at this stage that the beginning of diamond production in South Africa coincided with a period in which the accumulated wealth of Europe was growing at a rate incomparably faster than ever before, and that in particular this was a period in which Britain was emerging as the world's financier. Furthermore, it is clear that South Africa was at this time the recipient of a substantial share of British capital for foreign investment. The more specific question of the extent to which the diamond industry in South Africa was itself the recipient of foreign capital is much more difficult to answer. This paper, which seeks to trace the evolution of South Africa's diamond industry, will not attempt to provide a definitive answer to this question.

B) The Early Years: From Digger's Democracy to Joint Stock Companies (1867 - 1882)

The very earliest period of diamond mining in South Africa was most obviously characterised by disorganisation. Since the 1850's when gold was first discovered in the Transvaal (and later when, in 1866 it was discovered in Mashonaland and, in 1868, in the Tati area) there had been a drift of exploring parties and 'diggers' from Britain, Canada and Australia to the interior of South Africa. However, the discovery of the first diamond at Hopetown in 1866 stimulated a search for diamonds as well as gold. By 1869 over 20 diamonds had been discovered near the Vaal, the Orange and the Riet Rivers and interest was growing. More systematic exploration was begun which led to the opening of the "river diggings" near Klipdrift (later Barkly West) on the Vaal and then the "dry diggings" on the farm Bultfontein, which were to prove of more lasting importance. By the end of 1871 there were 5 mines in operation (in order of date of discovery): Bultfontein, Dutoitspan, the 'Old Rush', the 'New Rush' and Jagersfontein. All of these mines, except for the last, were geographically close together (in the Kimberley area).

This early period of a somewhat disorganised 'scramble' - the period of the so-called "digger's democracy" - can, however, be disentangled to an extent by examining the twin processes of the production and sale of diamonds. In the early years of the diamond industry in South Africa the producers tended to be a rather motley collection of 'fortune hunters', among whom were such names as Rudd, Jameson, Maguire and Rhodes himself; these men came to be known initially as the 'successful diggers' and the source of their wealth was in production itself. The dealers, on the other hand, tended to be financiers who were either based in Kimberley and who often had links with the international market in London (this group included men such as Beit, Wernher, Barnato, Albu, Echstein, Newmann, Robinson and the Mosenthals) or they were based in London and Europe and tended to be large-scale international diamond dealers with links in South Africa (e.g. the French firm of Jules Porges & Co.). This division is, however, in a sense too crude in that some diggers became dealers as well (e.g. Rhodes and Harris), while some dealers bought claims (e.g. Barnato and Robinson). In addition, some of the larger European dealers, like Jules Porges, moved in to deal in South African diamonds and to buy up claims, while certain of the Kimberley-based dealers moved into the London market (e.g. the Barnatos and Dunkelsbukler).

However, broadly speaking, we can at this stage discern certain divisions within the diamond industry which will prove critical to its later development: first, there are those whose main economic activity is production, i.e. digging itself; then there are those dealers based predominantly in Kimberley, but operating in other South African centres as well; and, finally (as a subdivision of the dealers group) there were the large international dealers who showed increasing interest in the South African diamond finds. These three 'separate' groups all had their own 'distinct' (though interrelated) problems. The diggers, who were small, independent producers, had, on the whole, not much capital and for them the basic economic need was to produce as many diamonds as they possibly could to sell to the dealers. For the dealers, however, increased production, for what was at that time essentially a luxury commodity, meant the possibility of a sudden drastic fall in prices which could lead to their being caught with large quantities of unsaleable stones. Although this problem was feared most by the small dealers (mainly established in South Africa) who lacked the capital resources to sustain a prolonged fall in prices, there was a good deal of panic among the large international dealers, who feared that South African production would not only flood the market, but that it would cause it to collapse.[8] Disorganisation in the industry prevented any solution emerging until, with the advent of an international financial and commercial crisis in 1873, the inevitable occurred - prices fell sharply, squeezing not only the dealers but ultimately, of course, the producers as well.

Although this crisis did not last it did point to the two crucial weaknesses of the diamond industry which would require decades to 'solve' successfully. These were: excessive production in relation to current demand and disorganised market conditions. As long as the diamond industry in South Africa was based on production by a large number of separate competitive units - that is, essentially weak producers with no staying power who sold at any price - and as long as sales were carried out through large numbers of separate channels (most of whom were unable to hold stocks when conditions were unfavourable) not only South Africa's position, but the stability of the international diamond market was threatened. However, factors were already at work, both in the realm of the producers and in the realm of the dealers, which were to lead towards a gradual 'solution' to these problems.

Regarding the producers, although it had at first been thought that the dry diggings would soon be exhausted, the discovery of diamond pipes (which meant that diamonds were to be found not only near the surface, but at great depths as well) indicated that the diamond mining industry was to have a relatively long-term future in South Africa. But it also meant that the established method of production had now become outmoded. The transition to deep-level mining brought with it new technical problems for the digger. Falling reef and flooding became problems that the digger, with his relatively crude method of production and his inability (due to a lack of capital resources) to purchase and transport the necessary plant that was required to deal with these problems, was unable to cope with. The only solution was to abandon open quarrying and to undertake subterranean mining on a large scale. This transition implied the death of the form of organisation known as 'digger's democracy' - of the small-scale unit - as the basis of diamond production in South Africa and the birth of the large-scale unit, the Joint-Stock Company as the new basis. An example of this new process of lateral integration was the combination of the highly successful claims of Rudd, Rhodes, Maguire and others, who bought up smaller claims on the 'Old Rush' dry digging, and, subsequently, in 1880, formed the De Beers Diamond Mining Company with a capital of £200,000.[9]

At the same time as the technical demands of diamond production were leading to the formation of joint-stock companies, the dealers were being severely rocked by the impact of the 1873 crisis, which, apart from knocking out the smaller, less secure dealers, clearly increased the pressure on all dealers to 'rationalise' the mechanisms of marketing diamonds. Increased demands were made on the Cape Government to enact legislation towards this end, such as for example, the demands made on the Government to curb Illicit Diamond Buying (IDB); in 1874 legislation was passed which legally confined the diamond trade to licensed dealers (who paid an annual fee of £50) and brokers (who paid £25). Gradually, then, as a result of these and other measures, a properly articulated diamond market began to develop, at the same time as numbers of small dealers began to 'pool' their resources and the partnership form of organisation evolved in the interests of dealers security. Hence, the process of lateral integration began to develop more or less simultaneously among both producing and dealing concerns.

However, despite the evolution of this process during the 12 years 1870 - 1882, the number of separate mining and dealing groups that operated at this time was quite large. In fact, among the producers, the early days and first successes of the Joint-Stock Company produced a sudden proliferation of companies.[10] At the beginning of 1880, 12 companies existed with interests in the five large mines and with a total capital of some £2½m, the shares having been issued mainly to vendors and promoters, who, as the major holders, exercised effective control. Of these there were 3 companies - De Beers, Kimberley Central and the French Company[11] - which were to become increasingly important in the coming years. In the first 6 months of 1881, 59 new companies were floated which meant that the total share capital of the 71 companies now stood at £8m, the shares being subscribed for largely in the colony.[12] The banks actively assisted in fanning this speculative boom by making advances against scrip. However, the inevitable depression which followed with the sudden fall in share values[13] was to usher in a new era in the evolution of the industry - the era of amalgamation.

C) The Era of Amalgamation: 1883 - 1890[14]

By 1885, as a result of the impact of the Depression the number of diamond companies in existence had been reduced from 71 to 42 and holdings were slowly being consolidated. However, the transition to deep-level mining and the comparative disorganisation of the market meant that the twin problems of the diamond industry were reasserting themselves again - but with increasing force. Costs were rising as miners began operating at even greater depths at the same time as prices were falling as a result of over-production. It was clear that the control of supply was essential if the diamond industry was to remain economically viable.

Over this period the De Beers Company "progressed with extraordinary success, expanding its range of ownership, absorbing step by step its floundering neighbours."[15] By March 1885, the capital of De Beers had reached £841,550 - from £200,000 in 1880. Similar successes had accompanied the development of the Kimberley Central Co., so that these two companies had emerged as the richest in the diamond world. However, the competitive nature of diamond production at this time (caught between rising costs and falling prices) made voluntary agreement among the mine-owners themselves to restrict output, an impossible task and a number of attempts failed to achieve any agreement. But the increased pressures on the industry were such that what could not be achieved by voluntary agreement would have to be achieved by economic force. The wealth of De Beers and the links which Rhodes had with European capital as well as with other powerful diamond companies gave him a unique opportunity to exploit the situation to the advantage of De Beers.

Up until this time it would seem that relatively little foreign capital was used in the development of the diamond industry in South Africa. As Frankel points out:

> "It is certain that only small amounts of capital were applied to the alluvial dealings. This is also true of the dry diggings ..."[16]

The establishment of the Joint-Stock companies seems to have been accomplished by using capital in large part raised from the profits of successful claim-holders and dealers; the remainder coming from those shares that were subscribed for in the colony. Banks, as we noted earlier, played an important part in this.[17] Although the formation of Joint-Stock Companies in the diamond industry greatly enhanced their chances of profitable business and their chances of increasing their influence in the industry, banks do not seem to have participated to any major extent in providing the large capital outlays that were necessary to make amalgamation a reality. For this Rhodes, as the advocate of amalgamation, had to turn to the vast capital market of Europe.

Rhodes's dealing and speculative activities in London had brought him (largely through the South African Chartered Co.) into contact with a group of powerful international financiers, including such important names as the Rothschilds. As a result of these connections he had come into close contact with two strong supporters of the concept of amalgamation in the diamond industry as a way of bringing about the necessary control in the industry - they were Beit and Wernher of the company Jules Porges and Co., which controlled the French Company, one of the Big Three in Kimberley. /See Note 11/ Beit also had close links with Lippert and Company of Hamburg. These two men, who would shortly set up their own firm of Wernher Beit and Co. as the successor to Jules Porges and Co. agreed to throw in their claims with Rhodes and support him in his aims for amalgamation.

In 1887 Rhodes gained complete control of the De Beers Mine for the De Beers Company. He then moved to gain control of the remaining companies. By this time (1888) the capital of De Beers had risen to £2,509,620. At the same time the Kimberley Central Co., controlled by Barnato, had, by a steady process of amalgamation, extended its claim area by absorbing the other companies in the Kimberley Mine (these included the extremely rich French Company), so that in 1888 it had an issued share capital of £1,748,190 and owned the entire Kimberley Mine.[18] Thus two of the leading figures in mining - Barnato and Rhodes (the latter supported by Wernher, Beit and Rothschild) - faced each other for the final confrontation.

But the cards had already been stacked in Rhodes's favour. In 1880 the Rothschilds in conjunction with Lippert had, through a syndicate, bought out the majority shareholders in the French Company. Thus the takeover of the French Company by the Kimberley Company, which involved the amalgamation of properties, was carried out with Rhodes's approval. He then bought out the syndicates that had controlled the French Company and, with this coup, set himself up to take over the Kimberley Central Co. in the largest amalgamation in South Africa's history[19] - De Beers Consolidated Mines Ltd. was established.

That left Dutoitspan and Bultfontein Mines in the Kimberley area. In quick succession Rhodes bought up most of the companies in these mines (valued at £4,500,000).[20] At the time of consolidation, the total market valuation of all the properties involved in amalgamation was £23,434,250.[21]

Thus the immense wealth which, as a result of the process of amalgamation, came to be concentrated under the standard of De Beers Consolidated Mines heralded the rise of a small group of financiers to a position of dominance both within the diamond industry itself and also within the overall context of the South African economy. These men - Rhodes, Rudd, Wernher, Beit, Barnato and their associates - whose financial wealth had arisen from different sources within the industry now combined their resources to form themselves into a financial oligarchy that exercised control over the largest profit-making concern in the country. With the huge financial resources of De Beers at their disposal and backed by powerful European financiers like the Rothschilds and Lippert (without whom the dominance of De Beers would not have been achieved at that time) they were perfectly poised not only to direct the future economic growth of the country, but, as the dominant force within the ruling class in South Africa, to direct the political future of the country as well.

D) Centralization of Control: The Beginnings of Vertical Integration (1890 - 1902)

The lateral integration of diamond production described above had its origins, primarily, in the fact that the most economical working of the diamond mines involved expensive plant which in its turn favoured the organisation of production by large capitalists. Competition among the different large capitalist groups (intensified by rising costs and falling prices) led to the need to control production, which initiated the period of amalgamation culminating in the emergence of De Beers Consolidated Mines as the most powerful company in the industry controlled by a tiny group of international financiers. But control of production - that is, lateral integration among the producing agents - was not sufficient to prevent a possible collapse of the market. Although amalgamation would enable De Beers to regulate output to an extent so as to prevent over-production, this could not solve the problem of how to deal with fluctuations in the value of diamonds on the world market. What was needed then, firstly, was a marketing organisation that could "feel the pulse of the demand" and which was financially strong enough to hold back diamonds when the values were low. Secondly, for De Beers to be able to regulate their output successfully they needed to be sure of a continuity of sales in the long run in order to finance production over a long period. In other words, what was required, in the first place, was the lateral integration of the marketing sphere of the diamond industry (such as had occurred among the producers), and, secondly, the vertical integration of the whole industry.[22]

This was no easy matter to accomplish for, although the small group of De Beers financiers had come to dominate the industry, their power at this stage was far from complete. Not only would they face considerable opposition from their competitors as they struggled, through further integration of the industry, to extend their influence and consolidate their power, but they themselves formed as yet a relatively loose alliance plagued by cross-currents of self-interest that threatened to undermine their coexistence. The fact that the interests of this financial group reflected, to an extent, the fundamental division of the industry itself - i.e. production and dealing - meant that an attempt to fuse these two 'aspects' of the industry could easily bring to the surface those latent contradictions within the group which could shatter its newly-established cohesion.

The 1873 'crisis' had, as we mentioned earlier, initiated the process of lateral integration among dealers. Dealers such as Wernher and Beit, in particular, who had long favoured the idea of the concentration of control in the diamond industry, who had assisted Rhodes in his successful amalgamation bid, again assisted him to organise a group of diamond merchants in Kimberley who would buy up the complete output of the mines which were now controlled by the De Beers company. This was the beginning of vertical integration in the industry.[23] In September 1889 this informal channel for sales became formalised by an agreement between De Beers, on the one hand, and the small but powerful group of merchants on the other (consisting of Wernher, Beit the Mosenthals and Barnato), who came to be known as the Diamond Syndicate. However, the agreement between the producers and distributors took time to become established as a permanent feature of the industry. Apart from the central fact that there was in one sense a conflict of interests between these two groups - the Syndicate favoured a larger reduction of output by De Beers to prevent a fall in the value of diamonds, whereas the Beers favoured a smaller reduction of output pressing for the Syndicate to hold larger stocks (in other words, each side wished to increase its own profits and push the greatest share of the risk onto the other side) - there was also the problem that lateral integration on the distribution side had been far less complete than among the producers and, hence, those dealers excluded from the Syndicate group (and whose livelihood suffered as a result) were a powerful and potentially dangerous force. The first agreement lasted only three months. A second agreement was formulated in February 1890. In order to overcome the second problem, this Syndicate included a larger number of firms - ten, to be precise, each with a specific quota.[24] This contract remained in operation until 1902, when a new contract involving 8 firms was signed. The 1902 contract is important because for the first time the principle was established that the profits from sales would be divided up between De Beers and the Syndicate. Prior to this agreement, the arrangement had been based on the previous system which operated between producers and distributors, which was that the Syndicate bought up the diamonds at an agreed price and then got what they could for them. The new agreement signified the extent to which the De Beers group of financiers, who had been the driving force behind the setting up of the Syndicate, had now come to assert their power over the sellers organisation.[25] The beginning of vertical integration in the diamond industry thus further extended the area of their control over the industry as a whole.

As a result of their monopoly on the production side the financiers were able to regulate the output of the mines so as to avoid over-production and realise high prices for the sale of diamonds; as a result of the vast financial resources of the Diamond Syndicate, the stock could be held when prices fell so that the supply never exceeded the demand. In addition, it was now possible for De Beers in conjunction with the Syndicate to manipulate price rises by withholding stock. De Beers Consolidated thus emerged from this period in control of by far the most important mines which contributed to the world's supply of diamonds, fortified by the reorganisation of the marketing process, which it had brought about. The supremacy of De Beers and the men who controlled it seemed absolute, yet the events which were to occur over the next few years would severely test the structure which had been set up and on which they relied to maintain their position of dominance.

E) The Challenge to De Beers: 1902 - 1914

At the time of the amalgamation and the establishment of De Beers Consolidated, a principle had been inaugurated which was to govern the operations of the company throughout the next half-century. This principle was that the company must acquire not only actually producing mines - this included both highly successful and relatively unsuccessful mines which had to be bought up for their 'nuisance' value[26] - but also areas that might contain diamonds. Hence, De Beers bought up large numbers of farms in the Kimberley area.

But the activities of De Beers did not at all remain confined to the Kimberley area. It had acquired interests in the Jagersfontein and Koffigfontein mines, thus spreading its interests into the Orange Free State and, by other acquisitions, into the Transvaal as well. In 1899 De Beers bought out one of the largest ground landlords in the country at that time, the London and South African Exploration Company. As a result of his 'internatioual' connections Rhodes was able to secure a deal with the British SouthnAfrica Company which gave De Beers "a preferent right to any diamonds that may be found ... as a sort of commission wherever the chartered territories extend".[27] In addition, De Beers secured a pre-emptive right to diamonds in the territories controlled by the South West Africa Company.[28] By 1898 Rhodes could say to De Beers shareholders with confidence:

> "You may be quite sure whenever you hear that a new mine has been discovered, that if De Beers are not there they are very near the spot and ... we always get the first information."[29]

However, though Rhodes and his associates made every effort to protect their monopoly position by buying up as many properties as they could which were suspected of containing diamonds and by buying substantial holdings in or taking over producing mines, events were to prove their efforts inadequate with the result that the dominance of De Beers and the newly-established stability of the world diamond market were both to take a severe shaking very soon. In 1902, following diamond discoveries by Cullinan near Pretoria, the Premier (Transvaal) Diamond Mining Company was formed.

Although De Beers by this time had come to dominate the diamond industry, having effective control both over production and (through the Syndicate) distribution, nonetheless it is true that De Beers's control was far from complete. Outside of its control were the small alluvial mines - the River Diggings - and a number of other minor mines. In addition, of course, was the fear - often enough expressed by Rhodes and his colleagues - that a new source of supply would be discovered which it was beyond the power (both financial and otherwise) of De Beers to acquire. Such a discovery threatened not only to reduce the value of diamonds significantly and, hence, reduce the profits of De Beers, but it also threatened to destroy the unity of the De Beers group of financiers by tearing the newly-established single producing/marketing structure apart. (The discovery of any new and potentially rich mine was bound to reduce the willingness of the Syndicate to carry stocks since they would fear the sudden fall of demand behind supply.)

In fact, the discovery of the Premier Mine proved even worse than Rhodes had feared. Not only was the Mine particularly rich, but in addition the owners of the Mine refused either to sell out to De Beers or even to sell through the Syndicate, preferring to set up their own selling organisation in London. The Premier Mine had been started as a 'Joint Enterprise', with the Government (from 1903) holding 60% of the shares in the Mine and the Premier Company holding the remainder. Costs in the mine were much higher than for De Beers (stones were predominantly small and output per load was much less than at Kimberley) and, hence, a very large output was required to compensate the minority interest for the total costs involved. From its earliest days Premier embarked upon a vigorous production programme, output rising from 750,000 carats in 1904 to 1,890,000 carats in 1907. (The aggregate De Beers output during this period fluctuated around 2,056,000 carats in 1904 and 2,062,000 in 1907.)[30] The one thing which De Beers had feared more than anything else - a sudden increase of stones on the market - had happened, though the fact that the prices for diamonds (and in particular for De Beers stones) were rising at this time coupled with the fact that, through the Syndicate, De Beers was able to ensure that, by holding back on production, the aggregate output could be kept within the absorptive capacity of the market, meant that no serious damage was done to the market at the moment. In addition, Beit who had always favoured establishing an agreement with Premier had ensured that a thoroughly effective liaison was maintained between the two groups in the merchandizing of the diamonds, so as to try and prevent the market from being swamped.[31]

However, in 1907 disaster struck the industry in the form of a recession. The country most heavily affected by the recession was the USA, and the collapse of the diamond market there hit the diamond industry very badly,[32] seriously shaking the relations between producers and distributors, which had already suffered as a result of the inability of De Beers to break the 'independent' stand of Premier. In 1908 the Syndicate declared their inability to continue buying fixed quantities of diamonds until the market altered.[33] De Beers agreed to accept a very substantial drop in output, but Premier refused to co-operate, continuing to sell through their own channel.[34] As a result of these contradictory policies the percentages of the combined output of the two groups altered dramatically (Premier's percentage rose from 26.7% in 1904 to 55.6% in 1908) - and the average value of diamonds dropped immediately (from 23/1 per carat in 1907 to 14/9 in 1908 and 12/6 in 1909.)[35] The De Beers group's carefully laid plans to prevent the flooding of the market had proved inoperative under the combined pressures of Premier's increased production and a collapse of the world market. In addition, the collapse of the diamond market which threatened to destroy the source of their wealth could, unless it were checked, dislodge the De Beers financiers from their dominant position within the economic and political life of the country.

However, in the middle of 1909 the recession lifted, and 'normal' market relations were resumed, thus averting the likely collapse of either one of the two competing groups. But the damage to both groups had been quite severe. Premier had had to receive £¾m worth of assistance from the Transvaal Government, while, in the De Beers group, the Dutoitspan Mine had been closed down and all the participating companies in De Beers and the Syndicate had lost money. It was clear that neither the policy of the Premier group to remain independently organised for production nor the policy of De Beers to try and 'sit it out' while Premier destroyed themselves had proved successful for either party. In addition, both groups faced the threat of a vast new source of diamonds having been discovered in South West Africa. It was felt by both groups that for the continued survival of all concerned what was needed was a reorganisation of the existing structure so as to impose a firmer form of centralised control.

Diamonds had been discovered in German South West Africa in April 1908. De Beers, however, despite the fact that they had received reports of "very rich alluvial finds", tended at first to underrate the importance of alluvial discoveries as such and, hence, regarded the reports as over-estimates. By the time it became clear that South West African production was to become a permanent feature of the diamond industry,[36] a considerable amount of independent organisation had occurred. Lateral integration among both producers and distributors occurred very quickly. Among the producers the German Colonial Government and two powerful syndicates emerged as the major forces, while on the distribution side the sale abroad of diamonds was entrusted from early on to a single company, the Diamond Regie of South West Africa, which was incorporated in Berlin in February 1909.

De Beers had no choice but to work within this structure, firstly, because of the value of the discoveries and, secondly, because of the huge financial power of the groups involved (these syndicates were backed by large banks like the Berliner Grundergesellschaft). De Beers acquired some shares in the German Colonial Company, while the Syndicate negotiated with the Regie. In addition, in 1909 De Beers and the Syndicate "jointly participated" in the buying of South West African diamonds. The Regie which had originally sold to an Antwerp syndicate, switched in 1912 to the London market where they competed with the (De Beers) Syndicate. As in the case of Premier, an agreement was organised between the two organisations for marketing purposes, whereby the German Government agreed to enforce a partial limitation of output.

The position at this stage then was that De Beers had been ousted from its previous position of supremacy. Although it still wielded considerable power, it no longer had a monopoly of world diamond production and was unable at this stage to break the 'independent' position of its competitors. In 1914 the Union Government supported by De Beers proposed a conference "between the South African diamond producers" to determine "whether joint action shou ld not be taken by the producers to safeguard their mutual interests".[37] The German Colonial Office and the Regie would be invited as well. On 30 July 1914 - five days before the outbreak of War[38] - the South African producers and the Diamond Regie concluded an agreement. This agreement established a diamond pool of producers (with a board of control representative of the producers) who sold their output to the Syndicate, which was rewarded on a commission basis and empowered to buy up to £10m worth of 'outside' diamonds. De Beers' quota was to be 48%, Premier's 31%, the Regie's 21%.

Although the War ended this attempt at international control of the diamond market, the future trend of events was clear. De Beers's position had been shaken by the difficult years of 1902 to 1914, but the company had emerged as still the most powerful force within an industry that had increasingly demanded - and would continue to demand - a more centralised form of control.

F) De Beers 'Other' Investments: Beyond Diamonds

However, we have spoken so far only of De Beers's interests in the diamond mining industry. For a fuller understanding of the power which the company wielded within South Africa, (as well as for a better understanding of the events which were to follow the Great War within the diamond industry itself) it is necessary to comment on De Beers's investments 'outside' the field of diamonds and of the reasons for them.

In his book on the 'Evolution of Modern Capitalism' J. A. Hobson wrote:[39]

> "A trust or other combine cannot find room to invest its profits within the 'trusted' industry: it must go outside. These profits pass into general finance, and are thence directed into forming and financing other trusts and large businesses. Thus the process of concentration and consolidation proceeds apace over all those industrial fields where capitalist methods of production prevail."

Hobson's argument is based on the assumption that, since

> "the profitable management of a trust depends primarily upon regulation of output, which involves a limitation on the employment of capital ... it is thus impossible for a trust-maker to find full continuous employment for the high profits he makes by extending the plant and working capital of his own business - such a policy would be suicidal. He must look outside his own business for fields of profitable investments for his profits ... Thus the profits arising from specific monopolies are logically forced into the more general regions of finance. They form a large and a growing fund of free capital which naturally associates itself with the free funds held by bankers ..."

Nowhere do these arguments appear more convincing than when they are applied to the case of capital accumulation in the diamond industry of South Africa, the viability of which depended upon the strict regulation of output, while, at the same time, the profits of the industry were enormous. The question of the disposal of these profits had to be carefully handled. It was the huge profits accumulated by Rhodes and others that enabled them to establish the De Beers Company in the first place, a company whose vast capital resources enabled it to buy up all the known existing and potential diamond areas in the country. By the turn of the century the Company owned 538,000 acres of land regarded as (potentially or actually) diamondiferous.

However, it was part of the established policy of Rhodes for De Beers to apply the principle of investment outside the strict confines of the diamond industry. For this reason Rhodes had framed the trust deed of the Company to give it very wide powers which would make this possible. Hence, in accordance with Hobson's analysis, we find De Beers investing in shares in the British South Africa Co. and its associated railway-building activities; in cattle raising, horse breeding and fruit and wine farming, (which led to the formation of the Rhodes Fruit Farms Ltd.); in explosives; in banking and other financial institutions; in coal-mining, copper-mining and, of course, gold-mining. While serving as an outlet for 'surplus' profits - that is, as a means of completely utilizing resources acquired through the diamond business - these investments also served as a 'hedge' against the risks associated with the diamond industry. Of course this is not to argue that the surplus was being 'dumped' in the sense of being indiscriminately disposed of - the choices for investment were very carefully selected to best serve the interests of De Beers. For instance, the investments in collieries were aimed at overcoming the problems of the high cost and availability of fuel at the time; the investments in railways and telegraphs aimed at building up means of communication and hence increasing efficiency; the farming ventures aimed at utilizing the resources De Beers had acquired as a result of becoming a great landlord; the explosives investment aimed at circumventing the costs of explosives which arose from the 'dynamite monopoly'; while investments in other mining ventures was a 'natural' course for a mining company to follow.

This thorough penetration of the economy of the Cape Colony, coming at a time when almost every industry in the Cape was dependent in some form or other on De Beers, gave the company even greater economic and political power. (Prior to 1900 De Beers alone was producing half the exports of the Cape Colony - a quarter of the total exports came from diamonds.) In addition to the above-mentioned investments, Rhodes had early on acquired a leading interest in the press in South Africa. Together with Eckstein and Barnato, he controlled the Cape Argus in Cape Town. This company (the Argus Co.) quickly expanded to own also the Johannesburg Star, the Bulawayo Chronicle, the Rhodesia Herald and the Africa Review. The Cape Times, which bought up the Diamond Fields Advertiser of Kimberley, was controlled by the Chartered Co. In this way De Beers established a structure which could give expression to its economic and political needs (and those of its allies). Nor did Rhodes shirk from using political power to gain these needs where necessary: for instance, in the cases of land 'concessions' in Kimberley, the Rand and Rhodesia; to secure special legislation and taxation concessions in the diamond industry; to promote railway and other facilities. Rhodes himself was directly active in politics (as was Jameson), becoming Prime Minister of the Cape Colony. The international 'connections' of this small group of financiers enabled them at times to secure the assistance of the British Government to help them gain their ends (e.g. the annexation of the Kimberley Diamond Fields, the seizure of Bechuanaland and, ultimately of course the war to 'acquire' the Transvaal and Orange Free State).

An idea of the degree of penetration and control of the South African economy exercised by this tiny group of financiers (a mere fraction of the local bourgeoisie) can be gauged from the following list of directorships held in 1905 by leading figures in the diamond world. Seven members of the De Beers Consolidated Co. between them held 60 directorships throughout South Africa (Robinson 17, Joel 13, Maguire 10); six members of the Wernher Beit Group (closely linked with De Beers) between them held 81 directorships (Rube 40, Newmann 17, Phillips 10). Eighteen men from these two groups[40] between them held 172 directorships in five branches of industry (diamonds: 12; gold: 119; land: 11; banks and finance: 14; railways: 5). In addition, there were other individuals, closely associated with the above combined group, who themselves had significant interests. For example, the Albus between them held, inter alia, 24 directorships in gold, while the Farrars held 19 in gold, 3 in land, 2 in banks and 2 in coal.

This then was the nucleus of financial power operating through the combined resources and influence of the De Beers Group and the Wernher Beit Group. This small international oligarchy of mine-owners and speculators, who had been associated with the rise of De Beers, now exercised, as a result of the wealth that had accrued to them through its varied activities, a degree of financial power which was to extend into the remotest regions of the economy. Amalgamation and centralisation of control within the industry had led to the concentration of the wealth of De Beers into their hands and they used that wealth, in particular, to secure for themselves the 'prime pickings' in the gold mining industry of the Rand.[41]

Although Kimberley was not the sole source of finance for the Rand, the enormous wealth of the Kimberley financiers, coupled with their international connections with the great finance houses of Europe and their experience of large-scale organisation and the technology of mining, made them leaders among the new financial class in the Transvaal. Of the nine leading gold mining companies in the country in 1899 the most important was Wernher Beit and Co. It consisted of 29 mines and had a nominal capital of £18,384,567. (Market value at 1 August 1899 was £76m.)[42] Within the gold industry Wernher Beit and Co. was the leading member of a larger combination that included for all practical purposes 4 other mining companies: the Consolidated Goldfields (owned by Beit, Rudd and Rhodes with 19 mines and a nominal capital of £18,120,000), S. Newmann and Co. (capital of £8,806,500), G. Farrar and Co., and Abe Bailey and Co.[43] Virtually under the same ultimate control were two other important groups of mines, which were largely repositories of German capital: these were Goetz and Co. and Albu and Co.[44]

Thus of the 9 leading mining companies only two, J. B. Robinson (with 19 mines and a nominal capital of £14,317,500) and Barnato's company, which was much smaller, remained outside the sphere of direct influence of the De Beers/Wernher Beit Group of financiers. The formation of the Chamber of Mines in 1899 under the leadership of Eckstein (who was Managing Director of Wernher Beit and Co.) consolidated this structure and fortified the position of the controlling group. In this way the influence of the owners of De Beers reached the gold mines of the Transvaal and from there extended into the industrial, financial, commercial and agricultural sectors of the Transvaal economy.

With De Beers dominating the economic and political life of the Cape Colony and the Chamber of Mines under the leadership of Wernher Beit and Co. coming increasingly to control the economic and political life of the Transvaal, the tiny oligarchy of international financiers who controlled the two allied groups had managed to concentrate the major economic resources of the country in their hands. They wielded a mass of credit which could be directed to almost any point in the economy which they required. Yet the structural solidarity of these financial interests was incomplete. What existed was a loosely-conneeted structure held together and manipulated by certain interlocking directorships, which could conceivably come apart under sustained pressure. What was needed in order to bring about the complete fusion of interests of the different groups involved was some method of securing firm control over the industrial machinery through which the financiers operated. What was needed was the establishment of a solid structure that would weld the different groups together into a firm cohesive unit which could ensure the 'rational' exploitation of the country's economic resources.

On 25 September 1917 the Anglo-American Corporation of South Africa was incorporated.

G) The New Structure: The Fusion of Gold and Diamonds

Just as in the 19th century a small group of financiers had used De Beers to consolidate and extend their control over the diamond mining industry, so now in the 20th century the Anglo-American Corporation was to be used as the means whereby amalgamation would be carried out within the gold-mining industry. However, in addition, Anglo-American was to be the means whereby the financial oligarchy were able to weld the loosely linked worlds of diamonds and gold into a closely-knit unified structure allowing for their complete control over both these sectors of the economy, and providing a secure and powerful base from which they could extend their interests to penetrate the rest of the economy. The process, as it occurred, will be briefly outlined below.

The Anglo-American Corporation was established by Ernest Oppenheimer in 1917 with the support of a fraction of financiers within the dominant oligarchy in London. This fraction was headed by Anton Dunkelsbuhler, who had long been involved in the selling of diamonds /See notes 11 and 24/ and whose company, A. Dunkelsbuhler and Co., had since 1890 been a member of the Diamond Syndicate. Through the operations of the Consolidated Mines Selection Company and the Rand Selection Corporation, Dunkelsbuhler had acquired important interests in gold mining on the Far East Rand, making him a much more powerful force to be reckoned with. The opening up of these new fields (largely under Dunkelsbuhler's control) outside of the Witwatersrand fields dominated by the Wernher Beit group enhanced the power of the Dunkelsbuhler group among the different fractions that went to make up the dominant oligarchy. (Dunkelsbuhler had gained control of Consolidated Mines through a merger carried out in 1905; by 1916 Consolidated Mines was the largest shareholder in Rand Selection /previously the Transvaal Coal Trust/ and the group as a whole was a rising force in the gold industry.)

Ernest Oppenheimer had first joined the firm of Dunkelsbuhler (his cousin) in 1896. Since that date his relations with the group of Dunkelsbuhler, Consolidated Mines and Rand Selection were extremely close. (His brother, Louis, was a director of Dunkelsbuhler and Co., while he himself held directorships on the other two companies.) With the blessing of these three companies Oppenheimer went ahead with schemes to gain the additional support of American capital for his new company.[45] When the company was finally formed with an issued share capital of £1m (and the power of the directors to increase this to £2m), the Board of Directors reflected well the coalition of interests that had given rise to its birth. Oppenheimer himself as Managing Director and Chairman and F. Lynch provided the connection with the Dunkelsbuhler group in London. The interests of American capital were represented by W. Honnold (for J. P. Morgan and Co. but also closely linked to the Dunkelsbuhler group), Sabin (for the Guaranty Trust) and W. B. Thompson (for the Newmont Mining Corporation).[46] The interests of the State in South Africa were represented on the Board by the Minister of Finance himself, H.C. Hull, and H. Crawford of the National Bank of South Africa and an MP. (Prior to the establishment of the company, Oppenheimer had obtained approval for the venture from Smuts himself who regarded it with "considerable favour".[47] Hull's presence on the Board was also approved by Smuts.)

With this sort of powerful backing Oppenheimer was perhaps justified in holding the highly ambitious views which he was elaborating even before the company was formed.

> "The first object I have in view is to secure for our company a fair share in the business offering on the Far East Rand. Once this is accomplished I shall steadily pursue the course of bringing about an amalgamation of Consolidated Mines and Rand Selection with our own company. We have already travelled some considerable distance towards an amalgamation between Mines and Rand Selections ... it does not seem too optimistic to think that we shall be able, within a reasonable time, to bring about a willing combination of the three Eastern Rand holding companies which would straightaway make us the most important gold group in Johannesburg. There is, moreover, no reason why our new company should not grow in other directions than in gold development. It may for instance play a part in the diamond world. What South Africa wants /for diamonds/ is enterprise and money and I believe our new company will supply both."[48]

We shall not follow Oppenheimer through the various deals that enabled him to accomplish these amalgamations leading to Anglo-American becoming the dominant power in the gold-mining industry, but shall turn immediately to the evolution that occurred within the diamond industry after 1914.

By 1914 South Africa had lost her monopoly position over diamond production. By the end of World War II, in addition to the increased production from South West Africa mines, new mines would have been opened in Angola, the Belgian Congo, West Africa and Tanganyika. As well as these mines the diamond market would have to cope with the opening of two new diamond areas in South Africa itself: in the Lichtenburg district of the Transvaal and in Namaqualand. The dominant position of De Beers had been seriously threatened by the beginning of South West African production and by the opening of the Premier Mine. Attempts made by the dominant oligarchy prior to World War I to maintain 'normal' marketing conditions had met with a number of problems. These centred around the problems of reconciling the divergent interests of the different producing areas; of reconciling the interests of the distributors among themselves; and of reconciling the interests of the producers with those of the distributors. All these divergent groups had a common interest in preventing the destruction of the market.

The expansion of production after World War I made these problems much more acute since more disparate interests were involved and more finance was required to buy up and, if necessary, hold indefinitely the quantities produced. A more centralised form of control - the complete vertical integration of the industry - was necessary to cope with these problems if the oligarchy was to maintain its dominant position. With the dominance of De Beers over the other producers and the establishment of the Syndicate as the single most important sales channel, the groundwork had already been laid. Furthermore, the increasing dominance of De Beers over the operations of the Syndicate laid the basis for the final extension of the process of control: the ownership of the seller's organisation by the producers through De Beers.

This process was continued by the 1914 Conference of Diamond Producers (mentioned above) which established the Diamond Producers Association composed of De Beers, Premier, Jagersfontein and Consolidated Diamond Mines of South West Africa, and which aimed at 'rationalising' the production side of the industry. In 1917 De Beers had managed to purchase a controlling holding in the Premier Diamond Mines thus extending their control. But the main pressure for 'rational' centralisation was exerted by Oppenheimer utilising the resources of Anglo-American. By 1921 the process of consolidation within the Far East Rand goldfields was well under way and Oppenheimer could turn his attention to the diamond industry. In a letter to his American associates he outlined his intentions:

> "Further to this, from the very start, I expressed the hope that besides gold, we might create, step by step, a leading position in the diamond world, thus concentrating by degrees in the corporation's hands the position which the pioneers of the diamond industry (the late Rhodes, Wernher, Beit etc.) formerly occupied. Such a position is most difficult to attain, requiring intimate knowledge of the diamond trade, pluck and a great deal of patience, but, above all, the support of powerful financial groups, who would be prepared to play the part which Messrs. Rothschilds played vis-a-vis the original leaders, at the time of the De Beers amalgamation. It is quite evident to my mind that eventually an amalgamation of the four big diamond producers (De Beers, Premier, Jagersfontein and Consolidated Diamonds) will be brought about, and I see no reason, if we continue our diamond policy, why we should not play a leading role in such an operation."[49]

His first move was, with the indispensable aid of his 'overseas' connections, to acquire control of the diamond mines of South West Africa. He then began participating in and concluding agreements with 'outside producers' in Angola, the Congo and West Africa, while all the time steadily acquiring shares in De Beers itself. His increasing diamond acquisitions enabled Anglo-American to gain membership of the Diamond Syndicate. A disagreement with De Beers led to Oppenheimer founding a 'new' Syndicate which he could effectively control. In 1925 he bought out the 'old' Syndicate and thus secured an important coup in the struggle to gain control over De Beers. His subsequent acquisition of the main claims in the Lichtenberg and Namaqualand areas increased his power substantiall[y]. In 1926 his growing holdings in De Beers itself enabled him to gain a Directorship and in 1929 his appointment as Chairman indicated that he had gained control of the company. Power within the financial oligarchy had over this period been transferred from the Wernher Beit/De Beers group into the hands of the Dunkelsbuhler/ Oppenheimer group and the take-over of De Beers by Oppenheimer put the seal on this process. A new era in the evolution of the diamond industry had begun.

The onset of the Depression intensified the already pressing need to 'revolutionise' the industry. The producers were forced to cut back drastically on production (or face disaster) while the Syndicate would have to carry immense stocks which could not be disposed of. The existing loosely-knit structure of the industry made it impossible to solve these problems. A new structure had to be created. The Diamond Syndicate was abolished and, in its place, arose the Diamond Corporation. However, the crucial difference between this institution and its predecessor was that the major interest in the Diamond Corporation was held by the Southern African producers. Hence, under Oppenheimer's direction the producers at last gained control over distribution and could, therefore, direct the general sales policy of the industry. Nor did the Producers Association itself escape drastic reorganisation. A new Association was formed which not only widened its membership to include certain 'outside' producers but also gave De Beers control over the other producers by equity ownership of the shares.

These changes were aimed at meeting for once and for all the three problems that had haunted the diamond industry since its inception. The problem of the divergent interests of the producers was met by including as many producers as possible into an Association which was controlled by De Beers; the problem of reconciling the interests of the distributors was met by creating a powerful new channel for sales; the problem of reconciling the 'contradictory' interests of the producers and distributors was finally met by placing control of the Diamond Corporation in the hands of De Beers. (The Articles of Association of the Diamond Corporation gave De Beers the right to appoint half the Board including the chairman.) In addition, the Diamond Corporation entered into purchase agreements with 'outside' producers, thus meeting the problem of 'outside' production. The vertical integration of the diamond industry was complete with the Oppenheimer group exercising, through De Beers, near-absolute control over the industry.[50]

The tightening up of the links between the De Beers-dominated diamond industry and the Anglo-American gold-mining interests was speedily carried out. In 1936 Oppenheimer announced the formation of the Anglo-American Investment Trust which aimed at this end.

> "One lesson which the years of depression has taught us is that it is undesirable for a corporation such as ours to keep a large part of its investments in an unquoted form. As you are aware, a large portion of our diamond interests is in this form, but the present partial recovery of the diamond trade with its promise of a complete recovery enables us to rectify this position. Arrangements are now in train for the formation of a new company to be called 'Anglo American Investment Trust Ltd.', which company will be managed and controlled by your corporation, and which will acquire from this corporation, its allied companies and friends their holdings of shares and debentures in diamond companies. The new company's principal assets will consist of substantial holdings of shares in De Beers Consolidated Mines Ltd., and shares and debentures in the Diamond Corporation Ltd. The company will have no power to engage in mining as that is the business of De Beers Consolidated Mines and its allied concerns; similarly the company will not deal in diamonds or precious stones as that is the business of the Diamond Corporation Ltd. The principal business of the new company will be to hold investments in diamond companies and by virtue of its large holdings it will occupy a commanding position in the diamond trade."[51]

Thus from the legal and administrative point of view De Beers would remain a separate undertaking. However, the creation by Anglo-American of a powerful subsidiary (the Anglo American Investment Trust) to act as a holding company to manage its diamond interests ensured that the diamond industry as a whole (and De Beers within it) were firmly held in a structure dominated by the parent concern. As chairman of the Anglo American Investment Trust Oppenheimer retained his personal interest in the diamond industry.

Oppenheimer next turned his attention to 'rationalising' the business operations of De Beers itself. In 1944 he established the De Beers Industrial Corporation whose aim was "to participate in industrial developments arising from its interests".[52] In other words, this new company was established to manage De Beers industrial interests, the most important of which was, at this time, African Explosives and Chemical Industries.

Finally, in 1952, utilising some of the huge profits (over £40m) which had accrued to the Diamond Corporation as a result of the extraordinarily high prices it had received for the sale of the large stock of diamonds it had bought up at very low prices during the Depression, Oppenheimer established the De Beers Investment Trust. His intention in establishing this new company was that it "will be employed in participating in the mining development of this country, in the same manner as De Beers Industrial Corporation is taking part in the Union's industrial expansion".[53] Early investments of the new company included participation in the gold mines of the Far West Rand and the Orange Free State.

Hence, having secured the dominance of De Beers over the whole of the diamond industry, Oppenheimer fortified his hold over De Beers by firmly entrenching it within the new Anglo-American group structure. From his base in South Africa's gold-mining industry, Oppenheimer thus exercised control over De Beers and its subsidiaries through the establishment of the Anglo-American Investment Trust, a subsidiary of Anglo-American itself. The business activities of De Beers were then further 'rationalised'. While its diamond mining operations remained under its direct control, the De Beers Industrial Corporation was set up to manage its industrial interests and the De Beers Investment Trust was established primarily to manage its non-diamond mining interests (particularly gold). Through this latter company a proportion of De Beers's 'diamond' profits could be channelled back into the world of gold in which Oppenheimer was based.

The circle was complete. The fusion of the gold and diamond industries under the control of a financial oligarchy, dominated by the Oppenheimer group, had been accomplished.

DUNCAN INNES

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Notes and References.

1. S.Frankel : Capital Investment in Africa; Its Course and Effects - (London,1938).

2. For example, by 1886 a railway line joined Kimberley to Cape Town, in 1876 a telegraph link was established with Kimberley and in 1879 and overseas telegraph system was set up, (prior to this the passage time from Britain to S.A. was 38 days).

3. Whereas in the mid-nineteenth century, Britain, "the workshop of the world", had produced half the world's supply of iron, five-seventh's of its supply of steel, and one-third of its steam power, by 1870 she was producing much less than half the world's steel and only one-fifth of the world's steam power. By the early 1890's the U.S.A. and Germany had both passed Britain in the production of steel - one of the most crucial commodities of industrialization at that time. For further developments of the arguments contained in this section see E.J.Hobsbawn : Industry and Empire - (Pelican Economic History of Britain, 1972).

4. Whereas in 1850 Europe and the U.S.A. together accounted for 52% of Britain's capital exports, between 1860 and 1890 Europe's proportion fell from 25% to 8%, while the U.S.A.'s proportion fell to 19% in 1914. Ibid.

5. The total long-term foreign investments of Britain rose from £472 million in 1855 to £1,006 million in 1870, to £1,602 million in 1885, to £2,485 million in 1900, to £4,004 million in 1914. For France these figures are: £205 million, £513 million, £678 million, £1,068 million and £1,766 million. For Germany these figures, (from 1885) are : £390 million, £986 million, £1,376 million. From : E.Staley : War and the Private Investor - (London, 1935) and supported by S.Frankel: op.cit.

6. E.Hobsbawn : op.cit.

7. Arghiri Emmanuel : White Settler Colonialism and the Myth of Investment Imperialism. - New Left Review No.73.

8. The importance of S.African diamond production for the world market can be gauged from these figures. Prior to the production of S.African stones, the major producer was Brazil, (India and Borneo produced relatively insignificant amounts). From 1861 to 1867 Brazilian output was estimated at a total of £1,888,000 - an annual average of £275,000. Recorded exports from the Cape Colony rose from £403,000 worth of diamonds in 1871 to £1,618,000 in 1873, and £1,648,000 in 1877. By 1872 S.African production was at least six times the annual rate of Brazilian production.
(T.Gregory : Ernest Oppenheimer and the Economic Development of Southern Africa - London 1962).

9. Regarding the Joint-Stock Company, Hobson writes that it operates as "a close oligarchy: the monetary support of the public is wanted but not their direction. Diffused ownership with concentrated control is the distinctive feature of the company". This description is applicable to the structure of the joint-stock company in S.A.'s diamond industry. It was this form of business organization which gave a small group of 'financiers', (Rhodes, Beit, Barnato and others), the opportunity in the end to wield a massive degree of policital and economic power as a

result of their having gained effective control over large companies.
(J.A.Hobson : The Evolution of Modern Capitalism - London, 1928).

10. One commentator wrote of this period : "When once the idea that the joint-stock system was the most advantageous method for working the mines gained a hold upon the community, the excitement became intense, company after company was formed, and the shares in every case were eagerly taken up by the public....The public bought shares in the diamond mining companies....not to obtain dividends on their capital invested, but for purposes of pure speculation".
(J.W.Mathews : Twenty Year's Personal Experience in S.A. - London,1887).

11. As previously stated, De.Beers had been formed out of a combination of the successful claims of Rhodes, Rudd, Maguire and others. Rhodes himself had moved into dealing as well, where he had attained considerable success, which in part resulted from the important contacts which he had with major shareholders in the Chartered Company in London. Rhodes' financial wealth coupled with those of his associates enabled De Beers to buy up the smaller claim-holders in the 'Old Rush' dry digging mine, so that with the transition to deep-level mining on the old site, the largest company in the new De Beers Mine was the De Beers Company. The Kimberley Central Diamond Mining Company was the largest company in the new deep-level Kimberley Mine, (the dry digging was known as the 'New Rush'). The major shareholders in the Kimberley Company, (which was registered in 1880), were the Barnatos, originally Kimberley diamond dealers who began buying up claims and then established a London-based firm. They,too, accumulated great wealth as a result both of their activities in diamond production and dealing. The French Company, (Compagnie Francaise des Mines de Diamant du Cap de Bon Esperance), arose out of Jules Porges and Company, a Paris firm of diamond dealers, (merchants). In 1871 Julius Wernher went to Kimberley as a buyer for this firm, (in 1878 he became a partner in the firm), and in 1882 Alfred Beit became the Kimberley representative of this firm. As Jules Porges and Company increased their interest in S.A. they began buying claims until they were owners in some of the largest companies in the Kimberley mines, (4 out of the 5). They founded the Griqualand West Diamond Mining Company in the Kimberley Mine which was later reformed and renamed, The French Company. Hence at this stage the major forces in the diamond industry were emerging : Rhodes and Rudd associated with the De Beers Company; the Barnato's associated with the Kimberley Central Company; and Wernher and Beit associated with the French Company. (This latter group also had close contacts with Dunkelsbuhler and Company. Anton Dunkelsbuhler himself had arrived in Kimberley in 1872 representing the Mosenthals, (diamond dealers). In 1878 he formed his own firm, Dunkelsbuhler and Company. Dunkelsbuhler was, through marriage, a cousin of Ernest Oppenheimer).

12. Of the 71 companies in existence at this time, 13 were in the De Beers Mines, (total capital : £1,334,100); 13 in the Kimberley Mines, (capital : £2,685,000); 18 in Dutoitspan Mines, (capital: £2,220,750); 16 in the Bultfontein Mines ,(capital £871,100); and 11 in 'outside mines', (capital : £923,00). Total capital : £8,033,950. (S.Frankel : op.cit.).

13. The seriousness of the Depression is partly indicated by these figures : merchandise imports into the Cape fell from

£9,37?,000 in 188? to under £3,800,000 in 1886; also, the Notes in Circulation, Total Deposits and Total Advances of the Standard Bank of S.A., fell from £764,586; £8,279,287 and £9,676,431, respectively, at 30th. June, 1881 to £308,174; £4,398,083 and £4,53?,473 at 30th. June, 1886.
(Amphlett : History of the Standard Bank of S.A. Ltd., - London, 1914).

14. One of the essential features of amalgamation in mining consists in enlarging the unit of production by the fusion of mines and in so arranging the physical apparatus of mining as to make larger units possible.

15. C.J. Rhodes, quoted in S.Frankel : op.cit.

16. Ibid.

17. This period saw the 'take-over' of banking in S.A. by the Imperial Banks of the British Dominions. Prior to 1861 all banking in S.A. was in the hands of local banks; by 1892 three Imperial Banks - The Standard Bank, (7? branches), The Bank of Africa, (24 branches) and The African Banking Corporation, (18 branches) - completely controlled the banking business in the Cape Colony. (There was only one small local bank, the Stellenbosch Bank, left by this time). (Ibid).

18. Figures from S.Frankel : op.cit.

19. Immediately prior to consolidation the capital of De Beers stood at £?,009,000, while that of the Kimberley Central Company was £1,779,650. De Beers stock at that time was selling at £50 for each £10-share, making a total valuation of £8,898,?50 for the mine. At this market estimate the valuation of the Kimberley Mine was £8,036,000, making the total for the two mines £17,934,?50. (Ibid).

?0. Ibid.

21. Since it had been decided not to increase the capital of De Beers beyond £3,950,000, the purchases in excess of this issue were provided for by the issue of debentures. (Fixed-interest securities issued by limited companies in return for long-term loans, - debentures are usually dated for redemption between 10 to 40 years ahead).

2?. Vertical integration : The undertaking by a single firm of successive stages in the process of production and
?3--distribution of a particular good. 23. Although vertical integration had previously existed on a small scale in that some dealers had shares in producing companies while some producers were also directly involved in marketing their own output, this was the first time that vertical integration on a large scale - that is, aimed at re-organizing the marketing process of the whole industry - was attempted.

?4. This Syndicate included the firm, Dunkelsbuhler and Company, whose quota at this stage was 10%. The firm remained a member of the Syndicate until its dissolution. (T.Gregory : op.cit.).

25. As a De Beers official wrote at the time : "At last we are going to have a share in the huge profits which for so many years have been pouring into the pockets of the Syndicate to our detriment". (Quoted in Ibid).

?6. For this latter group of mines Rhodes coined the phrase : "too poor to work, too rich to ignore".

27. Rhodes' address to shareholders at the 5th. Annual General Meeting of De Beers. (Quoted in T.Gregory : op.cil.).

?8. Ibid.

29. De Beers : Annual General Meeting, 1898. (Ibid).

30. T.Gregory : op.cit.

31. This was managed through the following channels : Wernher and Beit, (whose firm, Wernher, Beit and Company, was a member of the Syndicate and who were also life governors of De Beers), formed, together with S.Neumann, the London directorate committee of Rand Mines. However, S.Neumann also happened to be one of the four London directors of the Pr emier Diamond Mining Company. In addition, one of the other members of the London Committee of directors of Premier was F.English whose brother, R.English, was a director of De Beers.

32. The American market at this time took 70% of the total output of the industry. In addition, however, Europe was seriously affected as well and as a result there was heavy unemployment in the diamond cutting centres of Amsterdam and Antwerp. (T.Gregory : op.cit.)

33. The Syndicate already had an accumulated stock of £3 million worth of diamonds which they couldn't get rid of and were in addition receiving £643,000 worth of diamonds per month. (Ibid).

34. Premier felt that, even with a fall in prices, they could get a much larger share of the trade by not restricting output than they would get by accepting the proportion which De Beers were prepared to offer them.

35. T.Gregory : op.cit.

36. Output rose very quickly - from 560,000 carats in 1909/10 to 1,570,000 carats in 1913/14. (Ibid).

37. Quoted Ibid. Before the conference De Beers sent a delegation to Luderitzbucht to find out more about "German S.W.A.annual output and life". One of the members of the delegation was E.Oppenheimer.

38. The conference itself looked like a preparation for War with German interests opposed to De Beers, representing mainly British and French interests. (Sir David Harris has estimated that in 1914 half the European holdings of De Beers shares were in French hands). (Ibid).

39. Op.Cit.

40. These were : Beit, Eckstein, R.English, Goldie, Harris, Hamilton, Jameson, Joel, Maguire, Meyer, Michell, Neumann, Mosenthal, Phillips, Robinson, Rube, Rudd and Wernher.

41. In 1885 Transvaal gold production was valued at only £6,000, while Cape Colony diamond production was £2,228,000. By 1891 these values were £2,924,000 and £3,556,000, respectively. By 1898 they were £16,241,000 and £4,128,000. (T.Gregory : op.cit.).

42. J.A.Hobson : The War in South Afica : op.cit.

43. Ibid.

44. Control by the Wenher Beit Group was exercised over Goetz and Company through Rothschild, (together with Wernher and Beit he owned the Exploration Company), who had a controlling interest in the company, and over Albu and Company, through the Dresdener Bank, (in which Wernher and Beit had major holdings), which had major holdings in the company.

45. One of the reasons why Oppenheimer chose to set up his own company rather than to work through those already estab-

connections with German capital (Dunkelsbuhler himself was German In 1917 this was not a helpful connection.

46. The financial power of the American companies mentioned here should not be under-estimated. For instance, in 1901 it was estimated that J.P. Morgan, as one of the five big financiers in the United States, had control of $3,490m (out of a total of $8,000 controlled by the five). (J.A. Hobson; The Evolution of Modern Capitalism: op. cit.).

47. Letter from Oppenheimer to Honnold. (Quoted in T. Gregory: op.cit

48. Letter from Oppenheimer to Honnold (25.5.17); Quoted in T. Gregory: op. cit.

49. Quoted Ibid.

50. Oppenheimer's hand in bringing about these changes at this time was considerably strengthened by the fact that the Depression blocked off the normal channels of finance for his rivals. It was only his much larger capital resources that enabled him to supply the money which was required by the Corporation to buy up all the diamonds around during the Depression. Between 1930 and 1931 alone the Corporation bought £13m worth of diamonds. (Ibid).

51. Address to shareholders: Quoted Ibid.

52. Address to shareholders: Quoted Ibid.

53. Address to shareholders: Quoted Ibid.