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1984-07
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A F R I C A N S T U D I E S I N S T I T U T E

African Studies Seminar Paper
to be presented in RW
4.00pm SEPTEMBER 1984

Title: The Origins of the South African Reserve Bank.

by: Stephen Gelb

No. 157

(137)

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A F R I C A N S T U D I E S I N S T I T U T E

African Studies Seminar Paper to be presented at Seminar in RW 319 at 4,00 pm 17 September 1984.

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THE ORIGINS OF THE SOUTH AFRICAN RESERVE BANK

by Stephen Gelb

The South African Reserve Bank was opened on June 30, 1921, having been established under the provisions of the Currency and Banking Act (No. 31 of 1920). There was at the time only one other central bank in the British Empire, the Bank of England itself. The Act had been drafted after a situation of chaos developed in the South African monetary system. In March 1919, when the British Government abandoned its wartime rate of exchange between the pound sterling and gold, the pound depreciated to produce a 'gold premium'. British gold sovereigns, obtainable for 20s. from banks in S.A. now commanded a considerably higher price outside the country.

Large numbers of coins were now smuggled out, contravening the S.A. government's ban on their export. Although the premium was effectively keeping many of the goldmines afloat, the S.A. banks found themselves in a disastrous situation, being forced to import, and provide to the public at 20s. increasing numbers of coins purchased at the premium price. The eventual government response was to withdraw sovereigns from circulation, and to establish the Reserve Bank to prevent a recurrence of such an untenable situation. There was thus a fundamental restructuring of the form of regulation of the S.A. monetary system.

South African monetary historians have generally agreed that the Bank's establishment can be traced to the intervention of one individual.[1] As one recent summary put it:

> The Treasury consulted Mr. Henry Strakosch of London to assist them in the drafting of the required legislation [following Government instructions, stemming from its 1919 Currency Conference] ... Therefore a Select Committee of Parliament was appointed ... [which] was in turn dominated by Strakosch and they accepted his proposals ... The S.C. accordingly introduced a draft Bill into the House of Assembly on the 5th July, 1920.

R.S. Sayer's history of the Bank of England adds a further dimension:[2]

> The creation of the ... S.A. Reserve Bank ... owed most to one man - Strakosch ... [but] he alone could not ... have persauded the Union Government, had the concept of central banking not already been in the air, and had there not been a flavour of nationalism about it.
>
> ... [A] chance to embody these thoughts in pratical steps came only when, in 1919-20, the Union Government cast around for a policy on gold and exchange rates.

There is no attempt here to relate the restructuring of the monetary system to broader changes occurring within the society at the time. It is of course these broader struggles and changes which have been one major concern of those writers who have used class analysis to understand the history of the interwar period. Though unconcerned with monetary history, their passing references to the Reserve Bank have gone some way towards grounding Sayers' point. Thus Martin Legassick sees the event as illustrative of the struggle between 'imperial' and 'national' capital:[3]

> The strength of 'national' forces meant that ... a surprising proportion of capital accumulated remained in South Africa. Indicative perhaps was the formation in 1920 of the SA Reserve Bank, the first of its kind in the British Empire, taking from mine owners the right to sell gold [this actually occurred only in 1925] and gradually establishing local control over monetary policy.

In this paper, I advance an analysis of the reasons for Strakosch's considerable influence over this change in policy, by developing, and greatly qualifying, the general thrust of Legassick's point. This is done by locating the particular monetary problems of the period in the context of the broader social changes which began to manifest themselves at this time, and ultimately accumulated into the change in hegemony from that of 'imperial' capital to that of national capital.[4]

II

To begin with, it is worth reviewing the pre-war monetary and banking structure, so as to be able to indicate how and why state monetary regulation was transformed. Union and the granting of Dominion status in 1910 did not imply any immediate change in S.A's economic status within the British Empire, or in the relationship with British finance capital. Subjection to British finance capital meant that prior to 1910, it was the British Imperial State which was ultimately responsible for exercising the usual functions of the capitalist state. In 1910, not all of these functions were shifted immediately on to the newly-established South African state.

One of the functions retained by the British state was the role of the state in 'the reproduction of money as the general equivalent.'[5] It was the Bank of England which played the role of central bank in the South African economy. This was based upon the centrality, as

national currency, in the S.A. monetary system of the British gold sovereign (specie), coined by the Royal Mint in London and legal tender throughout S.A.[6]

The remainder of South African currency consisted of private bank money-notes (redeemable in gold coin) and chequing deposits - with the latter predominant. In December, 1914, notes in circulation amounted to only SA £2,404,000, while chequing deposits totalled SA £23,542,000.[7] The issue of notes was regulated by four different laws, applying to each province. In the Cape, notes had to be fully backed by securities deposited with the Treasury, and in the other three provinces, a gold reserve of at least 33% was required. There were strict regulations concerning bank reporting and government inspection, but none concerning bank deposits.[8] This indicates that the S.A state had only a partial responsibility in the exercise of the money management function, and clearly did not provide a complete guarantee of the convertibility of private bank money into state-issued money.[9]

In 1910, there were six substantial banks in S.A. (excluding the 1-branch Stellenbosch District Bank). By 1914, the National Bank had absorbed 2 of these, and in 1920, the Standard Bank absorbed a third, leaving only these two banks, and the Netherlands Bank.[10] The Standard and the ABC Bank (absorbed by the former in 1920) were Imperial Banks - 'colonial banks financed by English capital and directed from London'.[11] They were tightly locked into the rest of English finance capital.[12] The National Bank had been established in the Transvaal in 1891, as a joint venture of the South African Republic state, gold-mining capital and other Transvaal concessionaire.[13] This form of partnership was continued after the Boer War. The National (and presumably the Netherlands) had a 'London Committee', including its manager in London, and (before 1925) one of the directors of Barclays, which administered its London reserves.[14]

Through their connections with 'The City' in London, the banks ensured S.A.'s incorporation into the international and gold standard and the system of trade and capital flows in the the pre-1914 period, in which sterling was the 'hub currency', London the key centre, and English financial capital the major beneficiary. Banking activities facilitated internal trade, but especially flows of money and commodities to and from the country.[15] The banks had a branch structure, with most payments made by cheque, and cleared in each town in a mutually arranged clearing house. The development of 'credit chains' meant that head offices had little control over increases in credit extension in S.A., especially in rural areas.[16] The banks provided primarily circulation credit (as opposed to production credit)[17] in the form of advances and overdrafts to importers and exporters.

The major S.A. export was of course raw gold bullion. Its steady receipt by the Bank of England was an integral feature of its operation of the gold standard.[18] Symptomatic of the relation between English financial capital and the S.A. economy was the fact that, despite gold being 'the money material', none was retained in S.A. for local currency use. Instead, as with other S.A. exporters, the mines' receipts from gold sales were deposited in their London accounts with the S.A. banks. The latter had then to adjust their balances between

London and S.A., partly by shipping (minted) gold back to S.A., much of this coin being used by the mines themselves to pay black workers' wages.[19]

The banks ensured the convertibility of their own currency into gold sovereigns by ensuring that there were sufficient of the latter on hand in South Africa. Without this, a run on the banks could have resulted in bank failures, a general suspension of payments and widespread bankruptcy. A situation developed where the largest imperial bank, the Standard, held larger cash reserves than its own immediate requirements dictated, to protect smaller banks in case of such a run.[20]

The need to maintain sufficient specie in South Africa itself and thus for such a role to be played by the Standard was a result of the geographical separation between S.A. and the banks' reserves in London. These reserves lay behind their ability to maintain specie reserves in S.A., and ship it to and from the country. They also underpinned, with the banks' capital, their ability to borrow in the London market, which was ultimately controlled by the Bank of England. The banks kept their reserves in London precisely 'for the purpose of being able to draw gold from London when it became necessary'.[21]

This need arose when the South African balance of payments was in surplus. The banks shipped coins to South Africa to maintain the desired ratios between London and S.A. balances, and between gold reserves in S.A. and deposits. In the South African case, the need to ship specie was exacerbated by black workers' refusal to be paid in anything but gold coin.

It was a deficit, however, in the balance of payments which could create difficulties. If banks over-extended credit to importers, their London balances would be reduced as they covered bills tendered in London. If the balance dropped too much, and could not be compensated by shipping specie from S.A. to London, the bank would be forced to borrow in the London money market, which 'was extremely sensitive to unusual increases in the volume of bills rediscounted by particular banks or for particular trades or countries.'[22] A limit to a bank's borrowing in London led it to tighten its extension of credit in S.A. Conversely, a general tightening of conditions in the London market, i.e., a raising of Bank Rate, resulted in a raising of interest rates by banks in South Africa. The Standard Bank (and presumably the other banks) kept its schedule of interest rates in a constant relation with Bank Rate in London.[23]

Thus it was the London money market, in the first instance, and the Bank of England ultimately, which regulated the convertibility of private bank money to central bank money in S.A. The banks 'us[ed] existing or acquir[ed] fresh resources [when London balances were too low] ... [including] conceivably borrowing from the Bank of England itself'.[24]

The South African banks were thus an integral part of the British banking structure, reflecting S.A.'s 'colonial' status which, in the monetary sphere, continued unchanged after Union. As Williams puts it,[25]

> there was as little, or as much, reason for the overseas banks in London to cut off credit automatically to their customers in Latin America, Africa, or Australia in times of 'strain' as for the domestic banks to respond similarly to their customers in Birmingham, Manchester or Newcastle ... it is impossible to separate the then overseas Empire banking system from the domestic British banking system, and, to that extent, it is somewhat arbitrary to speak, with regard to monetary movements, of a United Kingdom balance of payments.

The last point applies equally to S.A. It is incorrect to consider the banks' London balances, during this period, as 'S.A.'s foreign reserves'.[26] These balances are better conceptualised as ordinary banking reserves, their physical location in London enabling the Bank of England to play its central banking role. As we shall see, this approach makes it possible to locate the later establishment of the S.A. Reserve Bank in the context of structural changes in S.A. capitalism.

In general, a relation is also required between the national currency (central bank money) and some form of 'international money'. Peripheral colonial economies do not however, require an 'international money' in this sense. In the South African case, the exchange rate between the South African £ and the £ sterling fluctuated between the gold export points. This fluctuation related to the relative presence or absence of gold coin in S.A., and the need to ship it physically, which resulted in transport and insurance costs. These costs were relatively constant before World War 1, so that the banks set the exchange rate according to whether the transaction would bring them closer to, or move them further from, the need to actually ship gold.[27]

Thus the need to ship specie to S.A. because of its physical separation from London led to a divergence between the S.A. £ and sterling (their quantitative relation was no longer exactly 1:1). But their 'exchange rate' under the gold standard was not a real rate indicating the quantitative relation between their international purchasing powers. As J.P. Gibson, general manager of the Standard Bank, put it in 1920: "in South Africa, we have been on the basis of pound for pound with England ... the rate at which business was done was more of the nature of a commission than an exchange'.[28] In other words, S.A.'s 'international money' was sterling, because S.A. was still part of the British monetary system.

The physical separation between England and South Africa was bridged by flows of capital and commodities in both directions.[29] The sphere of monetary circulation reflected this. At the same time, the fact that the two countries were separated implied that private bank money in S.A. was articulated to the national currency in a different way from that of banks whose operations were entirely within Britain, even though the national currency - sovereigns - was the same for both. Consequently, the S.A. national currency was articulated differently to sterling as 'international money' than the British national currency. Under the smooth operation of the pre-war gold standard, these differences were not relevant. But when the system was

disrupted during the war, they produced problems in the monetary sphere.

III

The outbreak of war in 1914 meant not only that special monetary arrangements were required by the gold standard's disruption, but also that English financial capital was significantly weakened by the destruction of the entire system of international trade. The way was thus open for a transformation of the relative strengths of different capitals operating in S.A.

Higher shipping insurance rates, and the British government's refusal to include gold in the war risks insurance scheme, led to the breaking of the link between gold and sterling. Following a year of fluctuating rates, the British government pegged the exchange rate at \$4,76 7/16 from January 1916, as opposed to the pre-war rate of \$4,86.[30] Furthermore, in order to keep gold within the Empire, and given the leakage of gold out of South Africa, the British government limited gold shipments to South Africa to small amounts.[31] At the same time, the South African government, in November 1914, banned gold exports to particular European (enemy) ports. In December 1916, after leakages of coin, combined with the difficulties of importing it, had made the banks' position very difficult, the government extended the ban to all overseas ports.[32]

When the pre-war gold-sterling link was broken, the banks theoretically had the choice of keeping the SA £ linked to gold rather than sterling. But given the pre-war monetary structure and direction of trade flows, as well as the banks' connections with English financial capital, it was hardly conceivable that they would opt for a gold peg. The SA £ thus remained linked to sterling, with a fixed remittance fee of 7/8%.

These new monetary arrangements contributed significantly to the weakening of importers, who had been central to the hegemony of 'imperial capital', during the war and immediate post-war period. Import prices had increased substantially, nearly trebling between 1914 and 1920,[33] due to sterling's depreciation, reduced levels of supply as overseas production was directed to the war effort, and higher shipping and insurance costs. Some tariffs were also increased by the S.A. government.[34] Importers thus required larger advances from the banks; however, to maintain the exchange rate peg and comply with the ban on gold export, the banks restricted credit to importers. Import volumes thus fell considerably, producing a balance of trade surplus (Table 1).

The pegging of the exchange rate involved attempts to limit S.A. exports, given the trade surplus. The banks were building up large balances in London, partly due to the mines continuing to sell their gold direct to the Bank of England. Under special wartime arrangements, the S.A. banks held the gold until it could be conveniently shipped. They were credited for its value by the Bank of England in London, and in turn advanced the mines in S.A. 97% (later 98 3/4%) of the gold's value.[35] Thus their London balances rose, and could not be adjusted because of the limit on specie exports to S.A. At some points during the war, the banks refused to buy bills from exporters.[36] It

seems therefore that if it had been linked to gold, the S.A. £ would certainly have appreciated against sterling during the war,[37] so reducing the returns to S.A. exporters. Among these the goldmines were by far the most important, and their profits were already being hit in other ways. Thus, the continuing link with sterling, though damaging to importers, provided important relief to exporters.

The weakness of importers provided an environment of protection within which manufacturing industry flourished.[38] Both the value of output (see Table 12) and the number of employees in industry more than doubled in the four years from 1915/6. War-induced growth also implied considerable diversification of the industrial structure, with the beginnings of heavy industry. Thus the basis was laid for the transformation of national capital from a small group of minor manufacturers, no more than a class in embryo. But the industrial development involved more than simply accumulation by small manufacturers who in the pre-war period had been protectionist and nationalist. Many of these were, of course, able to capture substantial shares of their own markets and/or move into new markets.

Perhaps more significant, however, was the participation in industry, starting during the war and immediate post-war period, of the banks and (some) mining capital. These two core groups within imperial capital began to move away from their almost-total orientation to resource extraction and trade, in response to pressures on their existing profit bases, and the simultaneous appearance of new opportunities.

While goldmining capitalists had made an initial entry into industry before the War,[39] it was only under the impetus of rising costs, excess capacity[40] and falling profitability (a drop of 42% between 1913 and 1919) that this move became consolidated. Unit cost increases were due to higher freight and insurance rates, labour shortages and worker militancy pushing up wages, and shortages of imported material pushing up prices of inputs, both those still imported and those now locally produced.[41] The increased credit expansion by the banks (see below) permitted these and other inflationary pressures to be propagated through the economy, thus compounding the cost problems.

Promotion of industrial development in S.A. was seen by the mining companies as a means of reducing both costs and dependence on imports.[42] This related especially to industries which produced necessary inputs for the mines, amongst which iron and steel were foremost. The Union Steel Corporation, established by the Lewis and Marks mining house before the war, was able to consolidate itself and expand during the war, as demand for its output increased. Administration of the company was transferred from London to Johannesburg in 1918, this and the expansion of capacity suggesting a renewed commitment to it by the mining house, as well as a desire to obtain S.A. state support.[43]

Mining capital was also moving into industry because it offered, at least potentially, levels of profitability which no longer seemed generally available in mining. Consolidated Gold Fields "had seen the revenue from its three big mines reduced by 85% in the seven years ending in 1918, so that the Chairman felt that 'mining in S.A. is not a tempting adventure in these days.'" The company had earlier sought

mining investments outside S.A., and now became interested in industrial investment in S.A. itself,[44] acquiring control over a diversified group of enterprises.[45]

Similarly, in 1920, Ernest Oppenheimer stated that the intention of the recently-established Anglo-American Corporation was 'to investigate any attractive industrial investment that presents itself and not merely confine its activities to mining enterprise'.[46] Oppenheimer here and generally presented himself not as a rising capitalist, but as a S.A. economic nationalist with a major priority the industrial development of the country.[47] E.A. Wallers, local director of Central Mining and Chamber of Mines President (1914, 1916-19, 1924) was also interested in establishing a national base for capital accumulation in S.A., through the National Industrial Corporation (discussed below).[48]

There were clearly sound economic reasons behind the move by local mining men into industry, a move which was connected to the industry's increasing 'South Africanisation'.[49] Nevertheless their ability to make this move, and thereby assert a greater independence from the English financiers who had previously called the tune, reflected, I would argue, the latter group's much-weakened situation.[50] This followed the destruction of the international gold standard and all that entailed, the British debt to the U.S. as a result of war-financing needs, and the rise of New York as an international financial centre.[51]

Unable to prevent the development of manufacturing industry and the associated greater independence and alternative orientation on the part of local mining capitalists, English finance capital was forced to accept and adapt to it, by trying to shape the new situation as best as possible to its advantage. One way of doing so was to view S.A. manufacturing industry as an outlet for investment and a market for British exports of capital goods and other inputs necessary for its development.[52] Increases in both exports and dividends from foreign capital investment were essential to the restoration of strength to the ailing British balance of payments, and thereby to 'The City's' international position.[53]

The S.A. banks were of course the best placed within financial capital to obtain immediate benefit from industrial expansion, given that a primary need in the expansion was for credit.[54] Thus they financed much of it via loans and overdrafts.[55] Since the banks had at times during the war to restrict credit to both importers and exporters, it was clearly in their interests (with respect to profitability) to advance funds to manufacturers instead. There was keen competition between the banks to obtain the accounts of newly-established enterprises.[56] In 1917 the National Bank, perhaps because of its greater distance from 'The City' and thus more 'national' orientation, but surely also to obtain a competitive edge over the Standard, went much further, by setting up with some mining houses the Industrial Development Company, to provide long-term capital to industrial firms. 'In 1919, E.C. Reynolds, manager of the National Bank of S.A., proposed that the state should also cultivate an "atmosphere of industrial investment" ... the Industrial Development Company and the National Bank of S.A. formed the enlarged National Industrial Corporation of S.A. Limited, with £1 million capital to

fulfill [the] needs [of private industry].'[57]

The credit being provided by the banks to industry was production credit, as opposed to the circulation credit extended to commerce, even though the instrument used (the overdraft) was the same. The expansion of manufacturing thus implied a change (extension) in the economic role of private bank money, a situation that was of some concern to the banks.[58] What was also needed, it seemed, was a transformation in the nature of credit control.

Relative to cash reserves (coin and bullion), bank credit increased substantially during the war and post-war years (the boom during the latter period meant that the absolute increase in credit was also significant). (See Table 3, columns 3 and 4). This reduction in reserve ratios seems to have been unavoidable from the banks' perspective, given the difficulties of moving gold, and the need to expand credit to maintain production of export commodities (especially gold) and boost production of manufacturers (capital and consumption goods) to replace unavailable imports. Only through such monetary accommodation could a 'generalised crisis' have been avoided, and the cost of this accommodation was inflation, a reduction in the rate of convertibility between private bank money and the national currency (the sovereign).[59] Whatever the necessity of the banks' actions, they were subjected during 1919 and early 1920 to increasing public criticism for overissue of their notes, which was seen to have caused the inflation.[60]

This was combined with pressure for the government to introduce new legislation involving tighter controls over the banks in relation to note-issue. The banks' response was that their increased note issue was commensurate with the higher circulation needs of the economy, which was booming. They blamed the inflation on their inability to obtain sufficient gold for reserve purposes, as a result of government wartime regulations and subsequent government inaction in obtaining gold for local currency directly from the mines.[61]

Whatever the merits of their argument, the persistence of inflation through these years meant that the perceived inadequacy of credit control had become an important political issue.

IV

The special monetary arrangements and other wartime circumstances, followed by the postwar boom, were thus beginning to place considerable stress on, and lead to suggestions for reform of, the 'internal relation' (private bank money - national currency) within the overall monetary structure. The 'external relation' between the national currency and 'international money', came under similar pressure in the immediate postwar period.

Before the war, the S.A. Banks had only had to maintain the convertibility relation (quantitative and qualitative) between private bank money and state money. Together with maintenance of a similar relation between sterling and gold by the Bank of England, this 'automatically' regulated the relation between the S.A. £ and sterling. During the war, however, with the change in the sterling-gold relation, the S.A. banks had to maintain the two relations (S.A. £-gold; S.A. £-£) separately. Under conditions of restricted gold

flows, this could only be done via inflation. But this separation of the two relationships also separated the S.A. £ and sterling, in the sense that sterling now became a true 'international money' relative to the SA £ - the apparent exchange rate became a real one : 'the stability [of the exchange] was fictitious, the banks were refusing to do business at quoted rates [to prevent increases in their London balances].'[62]

As G. de Kock points out (p 11), this separation 'caused no trouble as long as sterling was maintained close to mint parity with the gold dollar'. However, in March 1919, the British Government, facing its own difficulties, decided that the support for sterling at $4,76 7/16 was too costly, and ceased to peg the rate. It immediately dropped markedly, given British wartime inflation and London's decline as an international financial centre.[63] The gold price expressed in sterling thus rose to a premium, which reached 45% in February 1920.

The goldmines were able to take advantage of this premium from July 1919, when they were allowed by the Bank of England, after considerable appealing, to sell their output (excluding the amount required for South African currency use) on the free market.[64] The premium was of course essential to the survival of several mines, given the industry's profitability problems,[65] and its later fall led to attempts by the mines to cut costs. These ultimately resulted in the 1922 strike by white mineworkers, which event is widely discussed in the literature.[66]

For the banks, as opposed to the mines, the gold premium was a potential disaster. It reflected a reduction in the rate of convertibility between the country's 'international money' (sterling) and its national currency (the sovereign, seen as a certain weight of gold), just as inflation in S.A. reflectd a similar change in the internal monetary relation. But because S.A. remained internally on the gold standard, the premium produced a situation where substantial arbitrage profits could be made, as described in the introduction. Inside S.A., the sovereign was a token representing £1 and obtainable in exchange for a bank note; in fact the amount of gold in the sovereign was now worth much more than £1, both inside and outside the country. With the premium on sterling, this difference could now be realised by selling the sovereign, as a lump of gold, outside S.A. Coin smuggling became increasingly sophisticated, and enormous amounts of gold left the country.[67] The banks had to continue providing specie in exchange for notes and deposits. Furthermore, the need to pay black workers in specie provided a major reason for continued imports, since much of these payments disappeared into the rest of Southern Africa, or out of circulation into hoards.[68] If the banks were forced to obtain their specie at the world market price, the situation could clearly not continue for any length of time without leading to bank failures and thus suspension of monetary payments.

V

While the banks were able to obtain their specie at the nominal value of 20s, or 77/9d. per ounce, the premium itself was not a particularly new problem for them, despite the substantial leakage of coin out of the country.[69] It was only after the signing of the new

gold-marketing agreement in July 1919 that the potential disaster represented by the premium became a reality. Under this agreement, the Bank of England would supply sovereigns for overseas shipment, by paying with them for gold bullion valued at 77/9 per ounce.[70] Also, the S.A. government was able to requisition, on behalf of the banks, an amount of bullion equivalent to local currency requirements, for resale to the Bank of England. The effect of the premium on the banks thus turned on the price at which they could obtain this bullion. It was an issue which placed them and the mines on opposite sides of the fence: if the government requisition was at the standard price, the banks would benefit at the expense of the mines' loss of the premium on that proportion of their output; if the banks had to pay the free-market price, they would be placed in a dilemma.[71]

On the one hand, they could break the link between sterling and the S.A.£, thereby allowing the latter to move upwards (closer to gold par), so as to recover part of the premium. This option had costs, however: it would lead to a 'serious disturbance of the country's trade and industry,'[72] having in particular a detrimental effect on the goldmines, who would lose a corresponding fraction of their premium income.[73] In addition, this approach would be difficult to manage, with both the New York-London exchange (determining the premium) and the S.A.-London exchange fluctuating. The banks' inexperience in managing fluctuating exchange rates made this path even more risky. The banks' alternative, however, was to maintain the sterling peg and allow the profitability crisis to continue. To add to the complexities, the banks feared that too much pressure on the government to assist them with the currency would further fuel the fires of support for the policy of government (rather than private bank) note-issue, and even for a 'Government Bank.'[74]

The impact of the gold premium, and the associated renegotiation of the gold-marketing system, on the monetary system was thus not simply forcing the banks to react, but also beginning to indicate the need for its overall restructuring. An additional development, which constributed to this, in the first half of 1919 was the granting to the S.A. government of the power to set up a branch of the Royal Mint able to deal with the entire local gold output. At the same time, the Chamber of Mines was allowed to establish a refinery on the Rand.

The mines had been advocating the establishment of a refinery in S.A. since at least late 1917.[75] This was not supported by those elements who remained tied more closely to 'The City'. As Phillips pointed out, for the Central Mining Corporation, 'it would necessitate an entire reorganisation of our financial arrangements, as the money received against the gold would have to be dealt with on your side [in S.A.] or transferred to London at the current rates of exchange.'[76] Thus the refinery expressed, and would contribute further to, the increasing localisation of the goldmining industry.

The envisaged Mint was also seen by the Chamber to be highly advantageous, and not simply because it 'would secure a hallmark for S.A. gold, facilitating its disposal throughout the world.'[77] More importantly, the Chamber saw the two planned institutions as part of the permanent solution to the cost problems which was the premium temporarily resolving. The refinery and Mint together would make a direct contribution to reduced marketing costs, by resulting in

'reduced refinery charges, and also, it [was] hoped, in relieving the mines of the charges for freight and insurance of gold.'[78]

Though the primary motive may have been to relieve cost pressures, the Mint and refinery would obviously affect the monetary sphere also. They would, in the long-run, serve the interests of the banks, who had themselves proposed in 1912-13 that a Mint be set up to reduce their need to import specie.[79] Based on the same reasoning, gold required for local currency was excluded from the July 1919 marketing agreement, to be channelled to the local Mint once it was in operation. In principle, the Mint thus offered a way out of the banks' dilemma - if they could obtain specie from the new Mint at the Mint price, the premium would not have been a problem for them.

But the Mint was not yet operating. And when the banks approached the government in August over the bullion requisition, they found that the government had neglected to specify in the agreement either the price at which bullion would be requisitioned, or the interim arrangements prior to the Mint's opening. Since it 'was clear that the Government were unquestionably committed to the [gold marketing] scheme', the banks as a group were forced to negotiate with the Chamber through the government, over the terms of the requisition. At this stage, the banks were clearly not ready either to delink with sterling, or to try to force the state to take responsibility for the currency. Their approach was to avoid the potential dilemma by pushing the cost onto the mines.

These negotiations initiated a policy process aimed at monetary restructuring, which led eventually to the passing of the Currency and Banking Act the following August. During what can be distinguished as the first phase of this process, lasting until December, the concerns of the banks were by and large rejected not only by the mines, but also by the state, which accepted the latter group's opposed interests as predominant.

The banks' argument[81] was that the primary need for specie in S.A. resulted from the mines paying their workers in gold, and the leakage of coin out of the country or into hoards, when the migrant labourers, especially those from Mozambique, returned home. Thus, they felt, the mines should pay the cost of the premium on local currency, and their offer was to pay the standard Bank of England price (77/9 per ounce). The mines rejected this, arguing that the banks should raise their exchange charges (commissions) to spread the cost over all exporters. As the weeks passed, the issue remained unresolved, until the banks realised that the state was 'loth to coerce the Mining Industry',[82] and they would have to buy their bullion on the open market.

They were still, in mid-November, not prepared to unpeg the S.A.£. from sterling because of the damaging economic effects[83] - the post-war boom, from which they were making good profits,[84] would be turned into a recession. Thus the focus of the dispute between the banks and the Chamber shifted to the issue of exchange charges, as the banks attempted to recoup some of the cost of the premium. Even though the mines were offered preferential rates (and had earlier proposed precisely this course to the banks), they refused to accept the proposed new schedule. They backed this up with threats that they would instead set up their own foreign exchange department, and hinted that they were involved in discussions to this purpose with banks in

New York and London. Reflecting their dependence on the mines' accounts and exchange business, the banks relented, feeling 'it would be better to concede favourable terms[85] rather than risk the consequences of a rupture with the Chamber.' The banks' initial strategy to deal with the currency situtaion thus ended in failure.

Throughout these negotiations, the state had supported the mines, arguing that 'it was for the Banks to protect themselves as best they could',[86] by raising their charges. The only concession offered was that more vigorous attempts[87] would be made to reduce the leakage of coins from the country.

As far as the 'currency and exchange problem' was concerned, the Chamber, like everyone else, supported as a long-run objective a return to the full gold standard, which would involve free movement of gold into and out of the country. But in the short-run, the continuation of the premium was primary. Their other immediate monetary concern was the high rate of inflation and its effect on the cost of living, and the cost of supplies. This they attributed to over-issue of money and credit by the banks, and the most pressing consequence was the stirrings of worker pressure for wage increases. As Sir Evelyn Wallers, the Chamber's president, expressed it,[88] in early December, to the Standard Bank's Deputy General Manager:

> The high premium paid for gold has saved the position and to-day the Rand is enjoying extraordinary prosperity ... but money is circulating too freely to be altogether healthy. Under these prosperous conditions while labour is again showing signs of restlessness; native labour is much below the complement required and is dissatisfied but lacks cohesion.

The extent to which the Chamber's priorities shaped the state's thinking on monetary restructuring during this first phase[89] became clear at the 'Gold Conference' it convened in October. It invited the general managers of the four banks, three representatives of the Chamber, representatives of the political parties, and three 'interested individuals'. The purpose was to consider whether S.A. could, and should, return to the full gold standard at pre-war par, this already ruling out consideration of the temporary suspension of the nominal standard (ie eliminating convertibility inside the country), the only move which would resolve the banks' problems.

The central debate was between an immediate return to the full standard, involving a lifting of the embargo on exports of specie, and the delay of this return until the opening of the Mint and the refinery. The former position was taken up in vigorous fashion by J.W. Jagger MP, who was a prominent importer, as well as by the representatives of the Labour and Nationalist Parties. An immediate return to par would clearly benefit importers, who having suffered through the war, now wished to regain lost ground by cheapening imports via an appreciating S.A.£. against sterling. Jagger's main argument however, was that cheaper imports would lower the cost of living, a position in line with the Nationalist and Labour Party members. The latter pointed also to the potential political threat. J.G. van der Horst, one of the

'interested individuals' and a longtime Nationalist supporter and member of the the 'national bourgeoisie, pointed to the exports of food at a time of rising living costs. This, if continued , would lead to 'an upheaveal'. In addition, 'no manufacturers or industries could be carried on unless the food of the people were [sic] relatively cheap ... Wages would eat up all profits'.

Whatever their concern about possible 'upheavals' as a result of inflation, the continuation of the premium was literally the bottom line for the mines, and they took the opposing position. A return to the full gold standard, they argued, by S.A. without Britain, depended on the existence of the Mint and refinery. The path to lower prices thus lay through these establishments, which would therefore be of benefit not only to the mines, but also to 'the community by bringing about a reduction in the cost of living through the favourable effect on the rate of exchange which is likely to ensue.'[90] Without them, on the other hand, a return to 'natural exchange' (par) 'would create a great deal of disturbance', to the gold mining industry in particular. Once refined gold was available in S.A., however, the mines would be able to obtain the premium (if it still existed) by selling directly on the free market. Thus a return to gold would be possible as soon as the Mint and refinery opened.[91]

The banks supported the Chamber against an immediate return, on the grounds that 65% of the premium income would be lost (this being the proportion of locally used working capital to total output). In addition, it would result in a capital outflow from S.A. One consequence would be, as Reynolds argued, a 'tendency to strangle the budding manufacturers of the Union', implying that wage demands would be easier to deal with than competition from imports. Banking support for the mines was limited to the issue of an immediate return, however they did not agree that a Mint and refinery were sufficient to allow a return to a full standard, and opposed this section of the final resolution. But they found no support at all for their own proposal 'that the prohibition [on the export of specie] remain until conditions became more normal', that is, until a deflation had brought the exchange rate closer to pre-war gold parity.

In contrast, the majority at the conference, including those who had called for an immediate return,[92] supported the formal resolution proposed by Oppenheimer, to lift the embargo immediately upon the Mint's opening. The state accepted the mines' emphasis on the role of the Mint and refinery in monetary restructuring, together with the subsidiary proposal that banking legislation be unified and tighten up on the possibility of note overissue. (This latter proposal was accepted by the banks). Reynolds had argued at the conference that the coin leakage could be adequately resolved only by making the bank's notes inconvertible while the premium lasted. The Standard Bank did not give him support on this - although they surely must have agreed in principle, they felt the proposal had no broader support, and were worried about antagonising the other participants and the State. This feeling was borne out by the conference's hostile reaction to Reynolds' suggestion - any hint of total abandonment of gold raised very strong political feelings. Reflecting its unwillingness to take such a politically unpopular step at this point, the government's rejection of inconvertibility immediately after the

conference was equally firm: 'the Government does not favour the Banks' remedy of a temporarily inconvertible note issue, and there is no likelihood of its adoption now or later'.[94] The justification for this was the fear that an inconvertible note issue would inevitably produce inflation.[95]

VI

Despite its firm rejection of inconvertibility after the Gold Conference, only three months later in early February, the government had accepted in principle not only a refined temporary inconvertibility scheme for the short-run, but also the need for more permanent restructuring via the establishment of a central bank.[96] This reversal of perspective distinguishes the second phase of monetary restructuring 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.

This latter shift, and the state's new position, was linked to the intervention in the policy process of Henry Strakosch, who had arrived from London in December. As indicated above, his individual role has been seen in the literature as providing an adequate explanation of the state's turnaround. The process was considerably more complex, however, even if the state would be apt to accept Strakosch's advice, having invited his help in the first place. A more detailed examination is required of the reaching of consensus among the different groupings within 'imperial capital' - the mines, the banks and English financial capital in particular.

The details of the actual formulation of policy during this period can be briefly rehearsed.[97] Following Strakosch's arrival and initial consultation with Smuts, his proposals were incorporated into the draft bills being developed by the Treasury following the Gold Conference.[98] After a meeting in early February between the banks and Farrer, the Secretary for Finance, these bills were considered by a specially constituted Advisory Committee on Currency and Banking Reform, composed of delegates from all the various capitalist representative bodies. Detailed consideration of the bills was undertaken by a sub-committee involving only the 'imperial capitalist' groupings - the Chamber of Mines, the banks and Assocom, as well as Strakosch and Farrer.[99] The revised draft bills were then sent on to Parliament, where an all-party Select Committee, on the Embargo on Export of Specie (SC2-'20), heard evidence from members of the Advisory Committee, as well as others. Having consolidated the two bills into one, with a few minor changes, the bill passed into legislation as the Currency and Banking Act of 1920. Through this process of negotiation, compromise and concession on details was made possible. The basic approach, however, was not altered, once it had proven acceptable to the three major groupings.

English financial capital was represented in this process by Strakosch, the invitation to whom was not simply fortuitous but

reflected this group's presence as a class force in South Africa.[100] Strakosch himself headed one of S.A.'s mining houses in London, and also had a long association with international banking in 'The City'.[101] Furthermore, he had close connections with two important individuals in English monetary policy circles - J.M. Keynes[102] and Montagu Norman, Governor (from 1920) of the Bank of England.[103] Strakosch's views on the S.A. 'currency and exchange problem' reflected their influence.

Smut's request came at a moment when English financial capital had begun to get increasingly concerned about the deteriorating situation of the banks, and especially about the possibility of S.A. returning to the full gold standard prior to Britain.[104] As Henry puts it:[105]

> London ... had become apprehensive of a serious break in the exchange, now that S.A. and the U.K. were no longer based on the same standard of value. If the Union Government would not, and the S.A. banks could not, effectively intervene, it looked as though the exchange rate would be forced to a point corresponding with the cost of importing gold [to par], with the result that South African industry would be stifled and capital would go elsewhere.

This of course was precisely what the banks had been arguing. If a crisis was precipitated in South Africa, English capital would lose a major portion of its investment, and also its major source of gold. The Bank of England would go to very great lengths to protect its influence over the S.A. mining industry: 'it was one of the last that he [Norman] would have allowed to pass out of British control.'[106]

Strakosch's intervention, as evidenced by his pamphlet, The South African Currency and Exchange Problem, written at Smuts' request,[107] and his lengthy evidence to the Select Committee, was clearly designed to forestall any premature return by S.A. to the gold standard. In doing so he developed in detail many of the points the banks had made earlier. He argued strenuously against the view that inflation in S.A. was simply the result of over-extension of bank credit, and would be resolved by a return to the full gold standard, with or without the Mint and refinery. Pointing out that 'the rise in prices is world-wide' (SC2-20, q. 151), he argued that inflation was not simply a monetary phenomenon, but involved also forces affecting production, distribution and consumption (CEP, 26).[108] Thus, 'without increased production and economy, the expedient of raising our [S.A.'s] exchange to gold par is not going to solve the difficulty but will simply tend to produce a financial crisis' (SC2-20, q 152).

The removal of the embargo to enable a return to par would, he felt, damage the economy in a number of different ways. Firstly, it would induce a subtantial withdrawal of English capital, as well as a possible outflow of S.A. capital, as the S.A.£.'s appreciation against sterling made investment in the latter more attractive.[109] Potential new inflows of capital would dry up. Strakosch's concern here was not only that S.A.'s economic development might be held back, but also the possibility that capital from other countries might move in to fill the gap, thereby weakening English financial capital's influence over,

and base of profitability in, the country. The danger here was from the U.S. in particular, which had maintained the gold-dollar link, so that an appreciation of the S.A.£. would make the country more attractive to American investors. Although Strakosch argued that U.S. capital would not move in becuase the U.S. itself remained too attractive an investment area, the emphatic nature of his argument betrays some concern at the possibility (CEP,). Other contemporary commentators, some of them hopefully, saw it as a real possibility. The UCT economist Robert Leslie, for example, noted that '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 US.'[110]

Strakosch's argument about imports was similar. A rise in the S.A.£. would clearly cheapen imports generally. But as other witnesses to the S.C. pointed out, it would at the same time improve the competitive position of American imports, compared to British.[111] This would reinforce the existing trends towards increasing trade links with the U.S., and reduce flows to and from Britain.[112]

As far as both capital and commodity flows were concerned, therefore, the maintenance of the embargo, while sterling was depreciated against gold and the dollar, was essential from English financial capital's perspective. The S.A.£. had to remain linked to sterling, to protect this group's already weakened hold over S.A.[113] There was also a need to protect existing investments. No-one had to be reminded of the 'truly disastrous consequences' (CEP, 22) for the gold mines of a return to par. But what Strakosch emphasised also was the effects of lifting the embargo on other exporters and on South Africa's import-competing industries. The former would experience a sudden drop in their receipts (in terms of S.A.£.), and the latter significantly increased competition from now-cheapened exports (CEP, 21). This rapid deflation would force producers in both groups to attempt to cut their costs, particularly wage-costs, which would be fiercely resisted. The economy would be forced into recession, with firms and farmers going bankrupt, mines being closed down, and workers being laid off. The threat of unemployment would eventually force down wages. But the divergence between the 'almost instantaneous' effect on prices and the 'long and laborious process' of reducing wages and other costs

> may well have a most serious effect upon all manner of production in the Union. The farming industry and the newly established local manufacturing industries which were able to progress under the protection of high prices engendered by the war, would experience a setback from which they (and especially the latter) might find it difficult to recover for a great many years (CEP, 22).[114]

What is reflected here is not only a desire to protect British investment from the inevitably damaging effects (including possible political upheaval) of a generalised recession in S.A., but also an implicit acceptance of, and even support for, local manufacturing

industries. English financial capital was prepared to adapt to, and profit from, the latter, rather than seeing them destroyed.

Strakosch thus argued that the return to par would produce the deflationary effect desired by those supporting it, but the cost made it not worthwhile. But, he argued further, the S.A.£. could not be maintained at par (SC2-20, q 204). The increasing deficit on the balance of payments which would follow the return would be such as to push the exchange rate downwards again. Thus the attempt to return to par would prove a vain exercise.

It was not sufficient, however, merely to avoid an early return to gold at par, in order to protect English financial capital's interests in S.A. If the banks were forced to continue importing specie at the premium price, they would soon begin to raise their exchange rate and limit their credit extensions, in order to protect themselves. This was what in fact happened from January (see below). The effect of these actions, Strakosch recognised (CEP, p 11; SC2-20, q. 240), would be similar to, if not so drastic as, a return to gold. The immediate need therefore was to secure the banks from a withdrawal of their reserves (SC2-20, q.). This had to be achieved so as to allow also for a gradual deflation to enable a return to gold at par at some future date.

The gold certificates scheme supported by Strakosch was perfectly suited to this purpose.[115] This scheme involved the withdrawal of sovereigns from circulation, to be replaced by 'gold certificates' in a one-for-one basis. The Certificates would be legal tender, but there would be no incentive to smuggle or hoard them, as they had no intrinsic value. They would be used as long as the premium existed. Moving the responsibility for the national currency from the government to the banks, the gold certificates completely eliminated the problems involved in maintaining the relation between private bank money and the national currency, by the simple expedient of changing the state-issued money. The problem for the private banks, so far as this relation was concerned, now was no longer to maintain a rate of exchange between the S.A.£. and the weight of gold in a sovereign, but merely to prevent inflation by avoiding overextension of credit. The gold certificates themselves had no direct impact on either the exchange rate or the inflation rate[116] - they did not contribute to any sudden deflation. Neither could they lead to inflation via their over-issue, since they had to be fully backed by gold, which, while the premium lasted and the certificates were necessary, cost more than the latter's nominal value.

In explaining this to the Select Committee, Strakosch at the same time indicated that English financial capital identified the banks' immediate interests and the general interest:

> q 2 698. [The gold certificates] will neither depreciate nor appreciate our money? - No, they will simply lock up your gold.
> q 2 699. And thereby save the banks? - And the country.

The gold certificates scheme was seen to be merely adequate, in that it dealt with the immediate problem. More fundamental monetary

restructuring was required, to defend the situation for the longer term:

> q. 240. ... We have to look further [than the certificates]. There is bound to be a crisis. Commodity prices are bound to come down, and falling prices always mean crisis? Today the banks are not, even with their reserves secured in the shape of gold certificates. Even if they imported a further 1 ½ million in gold, that would only give them a reserve of something like 8%, which is entirely inadquate to back their huge liabilities to depositors ...

A central bank was therefore required to deal with the imminent and subsequent crises. The key feature it would provide, a feature heavily emphasised by Strakosch, was the centralisation of banking reserves. With reserves decentralised they could not be properly used when most urgently required - during a run on a bank - since all banks had then to hold on to their own reserves at all costs. The first bank, able to use only its own reserves for protection, might soon collapse, spreading the panic. In contrast, the 'reserves centralised in one institution could, when an emergency arises, be used to the full in order to stop the fire [at its source] and thus avoid a conflagration' (q 225).

The other essential element of the monetary system including a central bank was the creation of a second tier of liquid assets - discountable bills - which the banks could convert into additional reserves in case of emergency. When necessary, the commercial banks could rediscount their bills of exchange with the central bank, to improve their reserve ratios. 'The banks most legitimate investment - discounts - become its quickest asset' (q 225). At the same time, the central bank would receive a signal to raise its discount rate, thereby leading to a general contraction, stabilising the economy (q 255).

Strakosch's emphasis on these two features contains an implicit acknowledgement of the new monetary realities of the post-war period. Before 1914, as I discussed in Section II, the S.A. banks' reserves had been centralised in London, they had discounted bills in the London money market, and the Bank of England stood behind as the centrl bank. Thus the argument for a central bank in S.A. suggests that the Bank of England could no longer play this role, due to the disruption of the pre-war system and the associated weakening of 'The City', and to the Bank of England's own need to focus on getting Britain back onto the gold standard. The S.A. state had to take on responsibility for local monetary regulation.

This understanding is reinforced by the argument made by Farrer, the Secretary for Finance, in his own testimony to the S.C., which endorsed Strakosch's views in every respect.[117] Farrer pointed out that without a central bank, 'there is a limit to legitimate and desirable expansion of credit by the banks ... as S.A. will have to look largely to itself in the future, it is almost essential to make a change in order to provide capital necessary to carry out the

development of the country' (q. 3 660, emphasis added).

The reference to capital requirements here appears to be to the need for a controlled expansion of credit to allow further industrial and other development. This was emphasised also by Strakosch, who compared S.A. with the U.S.: 'Authorities say that if America had adopted the central banking system fifty years earlier, its [industrial] progress would have been infinitely greater, because [it] would have been saved the retarding effect of these periodical destructions of credit and confidence' (SC2-20, q. 264). He thus rejected the criticism that S.A.'s level of development was too low to justify a central bank, pointing instead to the boost which a reorganisation of the credit system could give to capital accumulation.

The pre-war gold standard system had revolved around trade, so that the role of the Bank of England in credit control was linked to the predominance of foreign trade in S.A. Since the intention and hope of English financial capital was to restore eventually the pre-war system,[118] Strakosch's advocacy of a central bank suggests also a recognition that foreign trade, if still dominant, was no longer the only important feature of the S.A. economy. It was a recognition, in other words, of the beginnings of the shift to industry and the associated growing importance of national capital. What was needed, for this reason too, was monetary regulation, which was not only local, but of a different kind than before. This was linked to the differences in the nature of credit involved - circulation vs production, short-term vs. long-term: 'What does produce danger by immobilising the bank are long loans, extending over several months' (SC2-20, q 232; see also q 235).

Thus, English finance capital's support for a central bank was a realistic assessment of the situation (in their own terms), and an attempt to ensure that their profits, supplies and influence were not completely destroyed. Plumptre puts this well: 'The desire in England for a chain of Empire central banks was a latter day expression of financial imperialism ... the essential purpose was the same: the maintenance of London's influence and control.' This 'desire' was acted upon by the Bank of England, which was 'concerned to see that British creditors gain[ed] the protection of sound financial policy in the various debtor countries ...[including] insistence upon sanctity of contrasts ... The Bank's desire [for these assurances] ... may well explain why it was so anxious that the central banks in the Dominions should be "independent"'[119] of governments and particularistic political aims. This latter point was stressed by Strakosch (SC2-'20, q 308, 310).

The Bank of England's direct hand is discernible in Strakosch's intervention. As already noted, Strakosch and Montagu Norman had a very close connection from the early 1920s and so quite possibly at this time too. Furthermore, a close advisor to Norman in the 1930s, involved in establishing central banks in the other Dominions, suggested that it was 'thanks to his [Norman's] prompting [that S.A.] had established a central bank.'[120] 'By this means, [Norman] hoped to maintain British influence without visible "strings".'[121] His ability to do so was certainly enhanced by the appointment later in 1920 of W. Clegg, the South African-born Chief Accountant of the Bank of England,

to be the Reserve Bank's first Governor.[122]

English financial capital's influence over S.A. monetary regulation could thus be maintained, despite the establishment of the Reserve Bank. But London had been moved to act to defend its position by the increasingly apparent inability of the S.A. Banks to perform this task of regulation adequately. The reaction of the S.A. banks to their deteriorating situation from the start of 1920 can be seen as having influenced the state's new policy directly as well.

The banks had, in early December, still not been willing to move the S.A.£. appreciably away from sterling (though they had raised their commission rates). However, the pressure on them to do so began to mount quickly from then on, and not simply because of specie leakage, which was becoming more organised.[123] The situation was becoming greatly complicated by the mounting balance of trade surplus (see figures for 1919 in Table 1). This meant that their London balances were accumulating too rapidly, and to adjust the situation, they would have had to ship specie to S.A. Thus, accommodating exporters meant they were converting sterling into S.A.£. at par (or close to it), but making the reverse transaction (sterling into specie for shipment) at a premium of 20-30%. As Gibson explained to the S.C.: 'We do not want to send money to London. If you accumulate balances in London at 8% [the discount the banks had begun to charge on sterling by the time the S.C. sat], you may have to bring them back at 25% [the gold premium on sterling]' (q. 1 545).

This situation could not continue indefinitely, and from late January, the banks began not only to increase the sterling discount against the S.A.£., but also to refuse to accept exporters' bills.[124] Purchases of bills by the Standard Bank's branches were rationed.[125] A 'true' exchange rate between the two currencies thus developed. At the same time, the banks raised interest and discount rates in S.A.[126] The Government became concerned at the situation, and tried to persuade the banks to accept all bills, so as to encourage a return to 'normal conditions'.[127] The banks refused, and maintained their policy of limiting exports. Over the next three months, they raised the sterling discount, which reached 8% by late April (when the S.C. was sitting).

The banks' actions, including their refusal to follow the government's injunction, served to highlight the seriousness of their situation, and the urgen need for a more appropriate policy response than had been forthcoming during 1919. Although the gold certificates scheme would not directly affect the buildup of their London balances, it would reduce the pressure by relieving them of the burden of the internal monetary relation, as well as the cost of the premium.

The exchange situation itself required more gradual treatment, and through the rest of 1920, the banks' actions helped to turn the trade surplus into a deficit, and also promoted an outflow of funds from the country.[128] Their London balances were thereby run down to more appropriate levels, and sterling moved to a premium on the S.A.£. These were, of course, precisely the consequences which Strakosch, and the banks, had predicted an appreciation of the S.A.£. would have. However, a return to par would have involved a movement three to four times as large, with its consequences correspondingly magnified. The

other predicted effect was that the economy would be pushed into recession. From May, when the trade balance moved into deficit and bank deposits dropped as capital flowed out, the price level also began to move downwards, leading to the onset of a recession which lasted until 1922.

The banks actions, once their situation finally led them to unpeg the S.A.£. from sterling, contributed to the state's acknowledgement of the seriousness of the bank's plight, and to its new focus on this as the key issue within the broader 'currency and exchange problem.' The banks naturally fully endorsed the gold certificates scheme, which they had been pushing since at least early December.[129] In evidence to the Select Committee, they analysed the likely effects of the embargo being lifted along identical lines to Strakosch.[130]

The banks had also argued vigorously that responsibility for the currency should rest on the state, not on private capital. This of course had only become an issue for them when it became costly, rather than profitable, for the banks to perform this function. As a member of the S.C. challenged Reynolds:

> q. 1139. You say that it is the duty of the country to provide its own currency, and that the responsibility of doing that should rest on the government. When did the banks find that out? - [Reynolds] When this huge premium on gold arose.

Having taken up this strong stand on inconvertibility and on the state's responsibility, the banks placed themselves in a position where they could not oppose the state's proposal to establish a central bank. The latter was, as noted, integrally linked to both the gold certificates - these being seen by Smuts as 'only a palliative' with the bank 'the solution to the present difficulties'[131] - and the state's assumption of responsibility for the currency, since it was to be given the sole right of note issue. Although the banks' immediate reaction to this aspect of the new policy, announced at their February meeting with Farrer, was one of hostility,[132] they essentially had no choice but to accept at least the basic principle. As Gibson lamented to his London office, 'it would not be wise to oppose the wish of the Government to establish a Reserve Bank'.[133] One danger for the banks if they did so was that, without their support, the package as a whole might collapse, including inconvertibility.[134] On the other hand, the state, to gain support for the central bank, threatened that the only alternative was a 'State Bank'. This would be potentially subject to political manipulation, which worried the commercial banks even more than a Reserve Bank.[135]

The banks' basic position on the Reserve Bank, as expressed in their evidence to the S.C., accepted it in principle, but argued that it was not really necessary in S.A., because reserves were already highly centralised. Nevertheless, it might play a useful role in crises:

> [In] the difficult years ahead [it] may serve a useful purpose by affording re-discount facilities for expansion

> and in times of pressure. The banks hitherto have had to depend on their cash reserves and as a second line of defence the position will be strengthened (SC2-'20; evidence of J.P. Gibson, q 1505 a).[135]

The banks focussed their attention on several less fundamental issues relating to the Reserve Bank. They tried, somewhat unsuccessfully, to influence the structure of the Bank, and the degree of control they would have over it via selection of directors and voting powers.[137] Two major concerns were the potential competition the Reserve Bank would provide, and the timing of the Bank's introduction. As Gibson telegraphed his head office from the Advisory Committee meeting, he was 'direct[ing] efforts towards limiting competing powers Central Reserve Bank and making it as far as possible a Bankers' Bank'.[138] In this respect, the banks were relatively successful - the Reserve Bank was barred from paying interest on deposit and current accounts. The banks pressed for a provision making the Reserve Bank discount their own bills at a rate 1% lower than those of the public (q 3912 ff). This would institutionalise the 'Bankers' Bank' approach, which the banks were anxious to do, being unsure of the management style to be adopted (q 1860).

The other limitations on the Bank's competitiveness was the requirement to back 40% of its liabilities with gold. This meant, as Gibson pointed out (q 1859-1860), that 'if it is going to compete ... it will continually be working down to its limits of reserve and for urgent requirements it would have to go below the reserve requirement ... [Thus it] should try to keep its reserves well above the limit'. The 40% reserve requirement was nevertheless a source of much resentment from the banks. It meant that they would have to import large amounts of specie to raise their low reserve ratios to the required level. On these grounds, they argued strongly for a delay in the Bank's establishment:

> ... the accumulation of balances in London is due to circumstances created by the war ... we should not be compelled to remove [these balances] whilst the heavy premium on gold exists ... it would be monstrous to compel us to incur such enormous expenditure ... merely because there is haste to bring about a vital change in the banking system ... the matter can very well wait until the exchange position or the premium on gold has adjusted itself ... (SC2-'20; evidence of E.C. Reynolds, q 854).

Gibson warned (q 1509) that establishing the Bank 'at the present difficult time is more likely to cause dislocation' than improvement, presumably because the sterling discount would increase and push the economy into recession more quickly.

The banks were not, of course, successful in delaying the Reserve Bank, and were forced to import large amounts of specie through 1920, increasing their holdings by nearly 50%.[139] The banks' attempts to shape the Reserve Bank had not achieved very much. Nevertheless, they were far from as hostile to it as generally depicted,[140] and the

overall thrust of monetary restructuring had changed dramatically from the position at the time the new gold-marketing agreement was signed, when the Chamber of Mines' needs held sway.

The third key factor in altering the position was the Chamber's switch to supporting inconvertibility. At its quarterly meeting in December 1919, Wallers, then the President, argued that 'the country is endeavouring to maintain a gold currency basis which ... is surely a hopeless attempt in view of world conditions and the insatiable demand for gold ... the remedy ... is to be found in the issue of Treasury Gold Certificates, fully backed by gold but temporarily inconvertible. An issue of that description could not, we think, have any undesirable effect on the cost of living.'[141] There is no conclusive evidence indicating what led Wallers to this position. However, he had met, shortly before, with Gibson, who was propounding such a scheme. More significantly, perhaps, Strakosch, when he arrived in S.A., joined the Chamber's sub-committees on exchange rates and on banking and currency reform.[142]

The certificates scheme itself would have no direct effect on the mines or their receipt of the premium. However, the Chamber's support for the scheme, and the situation of the banks, was reinforced by the banks' increase in the sterling exchange rate. This began to cut deeply into mining profits: 'in the month of April seventeen mines made a loss whereas five of them would have made profits but for the increase in exchange ... Any measure tending to reduce the banks' charge will naturally be welcomed' (SC2-'20; evidence of H.O. Buckle, President of Chamber of Mines, q 3212).

As far as a central bank was concerned, Wallers, at the annual meeting for 1919 (held in April 1920), had enthusiastically supported it, seeing it as having the potential to 'exert a stabilising and healthy effect upon credit'.[143] This was important to the Chamber in view of its concern over inflation and wages. In his evidence to the Select Committee, however, Buckle abstained on the issue: the Chamber has no very pronounced views for or against the proposal (SC2-'20, q. 3212). There is no evidence to provide an explanation for this.

VII

With the support, more or less, of the three major groupings within imperial capital,[144] the government was able to bypass opposition to its policy. This came from Samuel Evans, a maverick mining capitalist (on this issue at least), who took a 'currency school' approach to the question, and so was heavily critical of the banks. He felt that the gold certificates would mask continuing overissue of other banknotes, and so further propagate inflation.[145] Opposition came also from some Nationalist Party supporters, who blamed the sterling (ie English) connection for the monetary problems of the country.[146]

The bill passed through Parliament easily enough, even gaining the support of most Nationalists.[147] On December 15th, the Treasury suspended the redemption of the gold certificates, making the bank notes inconvertible.[148] The gold certificates could be declared irredeemible if the gold market price was above the standard price (77s. 10 ½d.), and the banks were compelled to accept them from the

Treasury in exchange for all their gold coin.

The Reserve Bank, as originally constituted, was the means of long-term restructuring of the monetary sphere. Together with the gold certificates, it removed the responsibility for maintaining internal stability in this sphere from the commercial banks.[149] Its basic functions, in its original form, were: to act as sole note-issuer (secured by a gold reserve of 40%); to hold reserves of the commercial banks (set at 13% of demand liabilities; to discount high class short-term paper; and to make advances against short term paper, gold or government securities. A maximum of 25% of its total reserves could be held outside the country.

Thus, the central bank was to have the responsiblity of assuring the convertibility of private bank money into the national currency. In 'normal' periods, this was to be done by the clearing house function, through adjusting the banks' reserves at the central bank, and by the issue of notes. In situations of tight credit, the Bank would act as 'lender of last resort', discounting the banks' bills, or making advances to them through their deposits with it. However, to gain greater control over the credit systems, the Bank had to be able to impose its interest rate on the money market. At the level of development of South African capitalism at the time, a money market hardly existed and much of the first few years of the Bank's existence was spent trying to create a bill market.[150]

The Reserve Bank, at this stage, was directed towards the internal aspect of the monetary system: 'it adopted a passive attitude in respect of gold and exchange transactions during its first few years of operation.'[151] This was a consequence of the structure given it by the Act. As Gibson pointed out to the S.C.: 'The Reserve Bank, if established, will have little if any effect on the exchange position in South Africa' (q 1505a).

The legislation did not include any provision for the mines' gold output to be sold to the Reserve bank, and it was only when the gold premium became smaller than the cost of shipping the gold to London that it was offered for sale to the Reserve Bank.[152] It was only once it had this control over the country's main source of foreign exchange, but more significantly, over the national output of 'international money', that the Bank was able to influence the exchange rates. Given S.A.'s position as a gold producer, the exclusion of control over the gold output from its constitution indicated its role at this point in the relationship between national and imperial capital.

Its function and performance in its role as lender of last resort, guaranteeing the 'reproduction of the general equivalent' internally, can be illustrated by a brief discussion of the National Bank crisis in 1923. After the banks had begun their credit restrictions in mid-1920 they 'showed undue haste and anxiety',[153] so that the recession was deep and involved a very large number of bankruptcies (2 092 in 1921, and 2 424 in 1922, as compared with 468 in 1919 and an average of 910 from 1910-13).

The low quality of the post-war advances had now come to light, and the National Bank, as a result, faced a crisis of liquidity. It thus was forced to use some of its reserve fund in 1922, and in 1923 to use up the rest of this fund and also write down its capital by

30%.[154] It was also forced to rediscount its bills at the Reserve Bank.[155] The Reserve Bank was able to carry out its functions as lender of last resort successfully, and ensure that there would be no general suspension of payments. (The National Bank was the second largest of only three banks in S.A. at the time, so that its failure would have been disastrous).

But this successful exercising of its function required, at this early stage, assistance from both the South African Government[156] and the Bank of England,[157] to maintain confidence in contracts and avoid a general suspension. The announcement that the Bank of England was prepared to discount the National Bank's bills was particularly important, in preventing monetary chaos. This incident clearly indicates that while the Bank of England retained a significant degree of influences, the S.A. state was now responsible for local monetary regulation.

VIII

The monetary restructuring, of which the Reserve Bank's establishment was an element, was a consequence of problems engendered by the changes in the balance of forces within the South African class structure during World War I - both the decline of English financial capital and the growth of national capital. The particular nature of these changes meant also that while a central bank in S.A. was not a necessary outcome of the monetary difficulties, what was required was some form of local credit control. In this sense, the Reserve Bank's establishment was partially 'indicative of the strength of "national" forces', as Legassick put it.

The form the restructuring took was due in large measure, however, to the intervention of unreconstructed 'imperial' capital. It was an attempt to adapt, and to defend English financial capital's position. Despite the breaking of new ground which it involved, it necessarily meant a diminution of this group's earlier influence and control. It was therefore contradictory, in that it would provide access for other ('national') social forces to exert some influence over monetary policy, and so contribute to English financial capital's interests being further eroded in the future. This contradiction, it would seem, is indicative of the complexity and the duration of the transition in South Africa during the interwar period from imperialist domination to peripheral national capitalism.

NOTES

1. B. Kantor (1971), 'The Evolution of Monetary Policy in S.A.', S.A. Journal of Economics, Vol. 39 (1), pp 48-9.

2. R.S. Sayers (1976), The Bank of England, 1891-1944 (Cambridge), p 202-3.

3. M. Legassick (1974), 'South Africa: Capital Accumulation and Violence', Economy and Society, Vol. 3 (3), August, p 261. See also B. Bozzoli (1981), The Political Nature of a Ruling Class (London), p 219.

4. See Bozzoli, op cit, ch 4-6.

5. See S. De Brunhoff (1978), The State, Capital and Economic Policy, (London), p 40. On money as 'the general equivalent', see, for example, K. Marx, Theories of Surplus Value, Part III, (Moscow, 1971), pp 135-6, and on the state's role in maintaining it, K. Marx (1867), Capital, Vol 1 (New York, 1967), p 129.

6. The Colonial administration closed the Transvaal Mint shortly after the Boer War. Until 1911, 'Kruger' (Transvaal) coins were still legal tender in the Transvaal and Orange River Colony and in 1911, this was extended to the Cape and Natal. But those were not central in the monetary structure.

   See E.H.D. Arndt (1928), Banking and Currency Development in South Africa, 1652-1927 (Cape Town and Johannesburg), pp 122-3.

7. C.G.W. Schumann (1938), Structural Changes and Business Cycles in South Africa, 1806-1936 (London), p 258.

8. Arndt, pp 450-4.

9. The monetary system is conceived here, using a very simple model, to have a three-tier pyramidal structure - the base consisting of private bank monies (deposits of the public in the banks, and private banks' note-issues when legal); the middle tier consisting of the national currency (the money of the central bank); and the top level consisting of the international money (foreign exchange reserves used to settle international transactions). The mutual convertibility of the different monies at the base is not problematic, but requires the intermediation of the national currency. Similarly convertibility between national currencies requires an international money. Thus the existence of money as a 'general equivalent' involves 2 sets of relationships, and the state's reproduction of this role of money involves the regulation and periodic restructuring of these two relations, through its control over the national currency as the pivot of the monetary structure. See De Brunhoff, op cit, pp 40-43.

10. Arndt, pp 399-400.

11. A.S.J. Baster (1929), The Imperial Banks (London), p 18.

12. Ibid., p 120.

13. Barclays Bank (D.C.O.) (1937), A Banking Centenary, 1836-1936 (London) p 116. Of the original directors, Taylor, Landermann and Goerz were gold-mining capitalists, Verwey the chief engineer for the Netherlands South African Railway Co., and Boshoff and Marais S.A.R. government nominees.

14. Ibid., p 370. The directors just before the 1925 merger with Barclays included Taylor, Ernest Oppenheimer and Drummond Chaplin who were goldmining capitalists, and Leisk and Evans who had both been senior civil servants.

15. See J.A. Henry (1963), The First Hundred Years of the Standard Bank (London), passim. For the similar role of banks in the informal British Empire in Latin America, see D. Joslin (1963), A Century of Banking in Latin America (London), pp 19-21.

16. A. Plan (1927), 'Banking and the State in South Africa', in London Essays in Economics in Honour of Edwin Cannan (ed. T. E. Gregory and H. Dalton) (London), pp 87-88.

17. For the distinction between production credit and circulation credit, see E. Mandel (1962), Marxist Economic Theory (London), pp 226 ff.

18. See J.J. Van Helten (1982), 'Empire and High Finance: South Africa and the International Gold Standard 1890-1914', Journal of African History, 23(4).

19. Black mineworkers refused to accept payment in any form other than sovereigns. In some of the early years of Transvaal goldmining, this resulted in more gold being returned to S.A. in minted form than was mined on the Rand. See D.W. Gilbert (1933), 'The Economic Effects of the Gold Discoveries upon South Africa: 1886-1910', Quarterly Journal of Economics, 47(4), pp 567-9.

20. Henry, pp 84-87, 111-112.

21. Baster, p 144

22. D. Williams (1968), 'The Evolution of the Sterling System', in Essays in Money and Banking in Honour of R.S. Sayers (ed. C.R. Whittlesey and J.S.G. Wilson) (Oxford), p 276.

23. Henry, p 171.

24. L.S. Presnell (1978), '1925: The Burden of Sterling', Economic History Review, 31(1), p 69.

25. Williams, pp 275, 286.

26. Kantor, p 43.

27. Gilbert, pp 566, 568.

28. Union of South Africa (1920), Report of the Select Committee on Embargo on Export of Specie (S.C.2-20), q. 1899 (emphasis added). (Referred to below simply as SC2-20)

29. In 1913, 67 1/2% of imports and 93.9% of exports were to or from the British Empire. See W.K. Hancock (1940), Survey of British Commonwealth Affairs, Vol. II, Part 1 (London), p 311. (In 1921, the figures were 69.9% and 86.9% respectively, but by 1927, they had dropped to 59.2% and 60.8%).

30. D.E. Moggridge (1972), British Monetary Policy 1924-31 (Cambridge), pp 16-17.

31. S.E. Harris (1931), Monetary Problems of the British Empire (New York), p 467.

32. G. de Kock (1954), A History of the South African Reserve Bank (1920-1952) (Pretoria), pp 7-8.

33. R. Davies (1979), 'The 1922 Strike and the Political Economy of South Africa', in Labour, Townships and Protest (comp. by B. Bozzoli) (Johannesburg), p 310.

34. M.H. de Kock (1924), Selected Subjects in the Economic History of South Africa (Cape Town and Johannesburg), p 290.

35. T.E. Gregory (1962), Ernest Oppenheimer and the Economic Development of Southern Africa (Cape Town), p 493.

36. Harris, p 466.

37. See evidence to the 1920 Select Committee of E.H. Farrer, Secretary for Finance: SC2-20, q. 3398 at p 504.

38. This paragraph is based on Bozzoli, pp 110, 144-5; and D. Innes (1984), Anglo: Anglo-American and the rise of modern South Africa (Johannesburg), p 119.

39. Innes, p 119.

40. Gregory, p 493.

41. Innes, p 75-77.

42. See Manager of Consolidated Gold Fields, Report 1919, cited by Innes, p 121; Innes, pp 79-80; and L. Phillips (1977), All that Glittered: Selected Correspondence of Lionel Phillips, 1890-1924 (ed by M. Fraser and Jeeves) (Cape Town). Section 5, footnote 45.

43. See summary of Union Steel Corporation's Seventh Annual Report (January 1919), in South African Mining and Engineering Yearbook, 1919-20 (ed S.R. Potter) (Johannesburg), pp 117-118, 303-304.

44. The Consolidated Gold Fields of South Africa, Limited (1937), The Gold Fields, 1886-1936 (London), p 98.

45. Innes, p 121.

46. Gregory, p 97.

47. Bozzoli, pp 165-166; Innes, pp 108-111.

48. L. Phillips, op cit, Phillips' letter to Wallers, 10 November 1918, letter 144, p 316.

49. Bozzoli, pp 153-155.

50. See Phillips' disdain for Wallers' interest in industrial development, and his complaint to Wallers, about his being 'really disturbed at the way in which suggestions from this side (London) are turned down at your end (Johannesburg) without due consideration'. Letter as in note 48.

51. Moggridge, pp 30-36.

52. Bozzoli, p 155; Innes, pp 123-6.

53. Moggridge, p 30.

54. See, for example, the editorial in Industrial South Africa, October 1918, p. 468.

55. E.H.D. Arndt and C.S. Richards (1929), 'The Banking System of South Africa', in Foregin Banking Systems (ed H.P. Willis and B.H. Beckhart) (New York), pp 964, 978.

56. Standard Bank Archives (SBA), General Manager's letter to London Office (GM-LO), 30/12/1919.

57. B. Bozzoli (1975), 'Origins, development and ideology of local manufacturing in South Africa', Journal of Southern African Studies, 1(2), p 210.

58. See summary of National Bank Annual Meeting of 1919, in Industrial South Africa, July 1919, p 372.

59. The sovereign can be seen as both a token representing £1, and as a piece of gold of a certain weight. In inflationary conditions, this weight of gold became worth more than £1; the reduction in the rate of convertibility was between private bank money and the actual gold contained in the national currency. This was expressed in an increase in prices of goods. One effect of this was to raise the cost of living for black workers, a key cause of the 1920 black mineworkers' strike. See P.L. Bonner (1979), 'The 1920 Black Mineworkers' Strike: A preliminary Account', in B. Bozzoli, comp., op cit, especially pp 279-280.

60. This occurred, for example, at the Gold Conference in October 1919, discussed below.

61. See Pretoria State Archives, TES/F9/460/1, Secretary for Finance, Circular to banks, 17/1/1920; and J.P. Gibson (Standard Bank), Response, 28/1/1920. The debate over responsibility for the inflation continued amongst monetary historians - see Arndt, pp 422, 425 and M.H. de Kock, p 377.

62. Harris, p 466.

63. Moggridge, p 22-23.

64. See Transvaal Chamber of Mines (1920), Thirtieth Annual Report for the year 1919 (Johannesburg) pp 290-3 (Referred to below simply as TCM, 1919).

65. Innes, pp 78-79, seems to argue that the premium itself was the consequence of the mines acting as a cartel. This is incorrect - the premium was a result of the lower value of sterling relative to gold and the U.S. dollar, and existed independently of the mines' actions. The mines could only demand to be allowed to benefit from the premium by selling their gold on the free market, rather than to the Bank of England. The Banks allowing them to do so may have been linked not only to the dire straits of the low grade mines, as Innes argues, but also to 'The City's' weakness, which the continued import of gold to build up British reserves would have exacerbated.

66. See R. Davies (1979), Capital, State and White Labour in South Africa, 1900-1960 (Brighton), and references therein.

67. Henry, p 184; Barclays Bank, pp 170-1.

68. Gilbert, pp 566-69.

69. Leakage of specie had always been a problem, as a result of mineworkers, from Mozambique especially, taking their wages with them. See for example, SBA, GM-LO, 17/9/19, p 5.

70. TCM, 1919, p 293.

71. SBA, GM-LO, 17/9/19, p 2.

72. Henry, p 167.

73. SBA, GM to Secretary for Finance, 14/11/19.

74. SBA, GM-LO, 17/9/19, p 2-3.

75. Phillips, letter to Wallers, 26/11/17, letter 141, p 308.

76. Ibid., letter to Wallers, 13/12/18, letter 145, p 318.

77. Arndt, p 158.

78. TCM, 1919, p 542. See also Innes, p 80.

79. Arndt, p 156. It is also worth noting that the central bank would probably have been unable to establish itself effectively without the existence of a local Mint. It would then have been dependent on the Bank of England for its specie supply, and so have been potentially subject, for as long as the gold standard was maintained, to the same problems as the commercial banks faced during and after the war.

80. SBA, GM-LO, 17/9/19, p 4.

81. SBA, GM-LO, 17/9/19, pp 5-8.

82. SBA, GM-LO, 17/9/19, p. 16.

83. Ibid.

84. SBA, GM-LO, 30/12/19, p 4.

85. Ibid.

86. SBA, GM-LO, 30/12/19, p 14, reporting interview with Minister of Finance on December 8.

87. SBA, Treasury to GM, 30/10/19.

88. SBA, GM-LO, 30/12/19, p 10. The accuracy of Wallers fears was borne out by the Black mineworkers' strike little more than 2 months later.

89. The discussion of the conference is based on Union of South Africa (1920), Summarised Report of the proceedings of the Gold Conference held at Union Buildings, Pretoria, Wednesday, October 22, 1919. (UG 18 - '20).

90. TCM, 1919, p 534.

91. Ernest Oppenheimer did not support this, arguing that what was additionally required was a 'Central Gold Bank' to hold the country's gold reserves, and more experience on the part of the banks in running a 'proper' exchange business, rather than their prevailing system of commissions.

92. This majority excluded, for reasons not apparent, A. French, the vice-president of the Chamber of Mines, who voted with the banks.

93. SBA, GM-LO, 29/10/19, p 2, and GM to Secretary for Finance, 14/11/19.

94. SBA, Treasury letter to Standard Bank, 30/10/19.

95. Treasury letter to Transvaal Chamber of Mines, in TCM, 1919, p 298.

96. SBA, GM-LO, 5/3/10, p 6-7.

97. Pretoria State Archives, Smuts Papers, Vol. 289, No. 296, Smuts to J.M. Keynes, 10/1/20.

98. J.C. Smuts (1973), Selection from the Smuts Papers, Vol. 5 (ed J. Van der Poel) (Cambridge), letter 29, p 43, Smuts to Keynes, 27/9/20.

99. The full Advisory Committee included other representatives of these groups, as well as delegates from the Federated Chambers of Industry and the S.A. Agricultural Union.

100. It is interesting to note that the next time outside assistance was called upon, in October 1924 after the Pact Government had been elected, the two invited experts were American and Dutch.

101. Strakosch had been associated with S.A. Goldmining houses from 1895. In 1919, he was managing director of the Union Corporation, and was involved with Keynes in developing new arrangements for the sale of the Rand's gold output. See G. De Kock, p 13, footnote 39, and Smuts, Vol. 7, p 441.

102. Smuts had actually invited Keynes, who was unable to come, and had therefore suggested Strakosh. See R. Parsons (1983), 'Keynes and South Africa', South African Journal of Economics, 51(3).

103. See A. Boyle (1967), Montagu Norman: A Biography (London), pp 145, 205. The references here are to dates after 1919, but it seems reasonable to infer that the connnection predated Strakosch's going to S.A.

104. It is quite possible that the timing of the invitation was not entirely accidental.

105. Henry, p 181.

106. Sir H. Clay (1957), Lord Norman (London), p 290, see also p 115.

107. Strakosch's pamphlet The South African Currency and Exchange Problem (Johannesburg, February 1920) will be referred to as CEP.

108. Strakosch thus followed the approach of the 'banking school' as against the 'currency school' which based itself on the Quantity Theory of Money and argued that inflation was simply the consequence of excess oney supply. This is one of the oldest debates in economic theory. See, for example, P. Deane (1978), The Evolution of Economic Ideas (Cambridge) pp 53-5, 221.

109. Keynes, in commenting on the S.A. debate from London, also emphasised this possibility. Quoted in SC2-'20, q 531.

110. R. Leslie (1921), 'Government assistance industrialists', South African Journal of Industries, 3, 1920, pp 133-4

111. See testimony of E. Chappell, an importer and member of Assocom, SC2-20, q 2534.

112. See table, 'Destination of S.A. exports', in S.A. Journal of Industries, 3, 1920, p 421. Prior to 1914, only 2% of exports went to the U.S., after the War, the figures were 16-20%.

113. It is thus nonsense for Cannan to assert, in his review of the Select Committee report, and Kantor to follow him, that the choice between gold and sterling was not seriously considered. See E Cannan (1920), 'South African Currency', Economic Journal, 30(4).

114. In 1925, when Britain was considering whether to return to the gold standard, Keynes made a very similar argument against a return to pre-war parity. See J.M. Keynes (1925), 'The Economic Consequences of Mr. Churchill', in The Collected Writings ofJohn Maynard Keynes, vol. 9: Essays in Persuasion (London, 1972).

115. It is not clear that Strakosch himself developed the gold certificate scheme as a refinement of inconvertibility, since the banks (at least the Standard) were advocating it prior to his arrival. It is probable that it arose out of the wider discussion, and was picked up by both Strakosch and the banks.

116. SBA, GM-LD, 12/3/20, p 11.

117. This is not very surprising, since Strakosch had been directly involved in the Treasury's drafting of the bills.

118. See, for example, Moggridge, p 23: 'Having formally left the gold standard, the Authorities had as their primary aim a return to gold.'

119. A.F.W. Plumptre (1940), Central Banking in the British Dominions (Toronto), pp 192-3.

120. Boyle, p 284.

121. S. Strange (1971), Sterling and British Policy (London) p 55. Sayers (p 201-2) rejects this view, arguing that the Bank of England was not involved.

122. Sayers, p 204, discusses the ongoing connection, through the 1920s, between Norman and Clegg.

123. SBA, GM-LO, 30/1/20, p 15; GM-LO, 12/3/20 (special), p 2.

124. SBA, GM-LO, 12/3/10, p 12.

125. SBA, GM-LO, 12/3/20 (special), p 7.

126. SBA, GM-LO, 12/3/20, p 4.

127. SBA, GM-LO, 12/3/20, (special), pp 6, 9.

128. Pretoria State Archives, Smuts Papers, Vol. 115, no. 26, Treasury memo, 'Some notes on currency and banking in the Union during 1920', 28/10/20.

129. Gibson proposed it to the Minister of Finance at their meeting on December 8. See SBA, GM-LO, 12/3/10 (special), p 2.

130. See SC2-'20, q 1144 ff. (Reynolds of National Bank); q 1310-1312 (Jorrissen of Netherlands Bank); q 1504-6 (Gibson of Standard Bank); q 2422 (Shiel of ABC).

131. SBA, GM-LO, 19/3/20 (special), p 2.

132. SBA, GM-LO, 12/3/20 (special), p 3; GM-LO, 5/3/20, pp 7-8.

133. SBA, GM-LO, 19/3/20 (special), p 18.

134. SBA, GM-LO, 19/3/20 (special), p 3.

135. SBA, GM-LO, 5/3/20, p 8.

136. For views of the other bankers along the same lines, see q 1219 (Reynolds), and qq 1231 and 1271 (Jorissen).

137. SBA, GM-LO, 12/3/20 (special), p 5, 19/3/20 (special) pp 6 ff.

138. SBA, GM-LO, 5/3/20, p 8.

139. Pretoria State Archive; Smuts Papers, Treasury memo, pp 6-7. See also Table 3.

140. See, for example, Sayers p 202 and G. De Kock, p 17.

141. Transvaal Chamber of Mines, 1919, p 566.

142. Ibid., p 11.
143. Ibid., p 63-4.

144. Support was also obtained from Chappell of Assocom.

145. SC2-'20, qq 2703 ff, 3005 ff.

146. See the testimony of C. Potgieter and J.G. van der Horst.

147. See G. De Kock, p 22.

148. G. De Kock, p 31, footnote 21.

149. G. De Kock, Chapter 2.

150. See for example G. De Kock, pp 105-108.

151. G. De Kock, p 79.

152. Ibid., p 81.

153. M.H. De Kock, p 381.

154. Barclays Bank (D.C.O.), p 179.

155. G. De Kock, p 119.

156. G. De Kock, p 120.

157. Sayers, p 209.

TABLE 1

IMPORTS AND EXPORTS

Year	Value of Imports (£) 000's	Volume of Imports*	Value of Exports (£) 000's	Volume of Exports *
1910	36,727	1,033	53,609	986
1913	41,829	1,111	66,569	1,117
1914	35,355		39,934	
1915	31,811	791	34,818	733
1916	40,400		65,697	
1917	36,476		91,575	
1918	49,487	690	70,633	771
1919	50,791	570	106,403	1,075
1920	101,827	895	98,896	719
1921	57,800		74,354	
1922	51,413	712	64,978	913
1923	57,815	963	78,326	1,022

*Index no. 1909-13 average = 1000 (exports--of all SA produce, excluding gold).

Source: M. H. De Kock (1924), Selected Subjects in the Economic History of South Africa (Cape Town and Johannesburg), p. 328.

TABLE 2

MANUFACTURING OUTPUT

Year	Value of Gross output ('000 £)	Value Added ('000 £)
1915/16	40,435	18,119
1916/17	49,457	21,433
1917/18	60,123	25,874
1918/19	70,935	29,914
1919/20	92,914	39,063
1920/21	98,308	40,343
1921/22	79,446	36,623
1922/23	74,486	37,346
1923/24	79,789	40,586

(For 1911, the gross output figure was £17,249,000).

Source: Union of South Africa, Office of Census and Statistics, Official Year Book of the Union, No. 8, 1925.

TABLE 3

BANK LIABILITIES AND CASH ASSETS
(£'000)

Date (end of)	Notes (1)	Deposits (2)	Gold Coin bullion & certificates (3)	Cash: Liabilities (%) (4)	Advances and Discounts
Dec. 1913	2,263	34,287	7,064	19.3	32,954
Dec. 1914	2,374	35,741	6,307	16.5	29,697
Dec. 1915	2,680	40,991	6,587	15.0	30,152
Dec. 1916	3,381	43,913	5,558	11.7	36,826
Dec. 1917	4,527	52,070	6,172	10.9	35,842
June 1918	5,426	58,937	6,600	10.2	38,565
Dec. 1918	6,269	63,502	6,851	9.8	48.502
June 1919	6,572	75,279	7,532	9.2	49.871
Dec. 1919	7,984	88,073	7,303	7.6	53,538
Mar. 1920	9,011	94,365	7,644	7.3	56,356
June 1920	8,799	86,082	9,704	10.2	63,920
Dec. 1920	9,066	78,145	10,365	11.8	69,911
Mar. 1921	8,870	75,700	11,083	13.1	65,630
June 1921	8,535	71,657	6,495	15.2	61,698
Sept.1921	8,698	70,358	6,351	17.5	56,675
Dec. 1921	8,764	71,287	7,122	17.0	54,999
Mar. 1922	8,929	70,167	6,935	17.9	53,429
June 1922	7,597	67,299	4,775	18.8	50,640
Sept.1922	2,012	65,902	1,992	13.2	48,911
Dec. 1922	1,236	66,298	1,761	14.5	46,200

Source: Union of South Africa (1925), Report submitted by Dr. E. W. Kemmerer and Dr. G. Vissering on the Resumption of Gold Payments by the Union of South Africa (UG 13, Pretoria), Annexure 11.

Column 4 = col. 3 ÷ [col. (1) + col. (2)]