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SHAPING MONETARY POLICY AND DEVELOPMENT IN SOUTH AFRICA: The role of Jack Holloway and Andries Bruwer, from 1914 to 1950

By Bradley John Bordiss

(STUDENT NUMBER 1435513**)**

Thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy
in the

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DECLARATION

I declare that this thesis is my own, unaided work. It is being submitted for the Degree of Doctor of Philosophy at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at any other University.



_____ (Signature of candidate)

01 September 2020

ABSTRACT

The period 1914-1950 saw the rise of Afrikaner nationalism in the public service, and in politics. Amongst its aims was the achievement of an economic sovereignty for South Africa that would serve Afrikaner interests. It saw profound institutional changes in the financial sector, and heated debates on monetary policy, many of which also had international dimensions. This thesis focuses on these debates, considering them in two broad categories: 'Sound money' and 'Development money' theories. The former saw free- trade as an engine of wellbeing and pursued global laissez-faire; the latter were protectionist and national in their focus, seeing domestic production as the engine of wellbeing. A key advocate of development money was Dr A J Bruwer, Chairman of the Board of Trade and Industry from 1924 till 1932, who was inspired by John Maynard Keynes, and corresponded with him. A local leader of the sound money school was Dr J E Holloway who was to become Secretary of Finance from 1937 to 1950, and who was inspired by Dr Edwin Kemmerer, the sound money advocate of the gold standard.

The key materials for the dissertation were drawn from archival sources, principally the papers of Bruwer, Holloway, White, Keynes and Kemmerer, but also encompassing a range of other archival sources. It uses these to show the influences of the international monetary debate on the South African one, and also the South African contribution to the global debate. In this context, it is argued that both the American chief negotiator at Bretton Woods, Harry Dexter White, and his British counterpart, John Maynard Keynes, were development money thinkers who opposed Kemmerer's Wall Street supported policies.

DEDICATION

To a new generation of progressive African leaders. May you succeed in lifting millions into productive employment. For only if you succeed, will my children be secure in this land.

ACKNOWLEDGEMENTS

The greatest debt of gratitude that I owe, is to Professor Vishnu Padayachee, whom I met completely per chance, when I commented on the unparalleled Marxist and Keynesian sections of Ike's Books in Durban thirteen years ago. He has been the most significant mentor of my 53-year life on this planet. I would also like thank Professor Jannie Rossouw for the interest that he has shown in my research and for his corrections, and Professor Anthony Leiman for the opportunity that he gave me to teach the History of Economic Thought course at the University of Cape Town eight years ago, and for stimulating my further reading on the subject, and to Laurelle Martin and Elizabeth Baldwin for their painstaking editing. I would also like to thank various members of the family of Dr J E Holloway; Jan-Jan Joubert, Irma Joubert and Jack Holloway the third, who gave me access to their private archives, and for the friendship that I developed with them subsequently.

Finally, I want to thank the greatest evidence of God's grace in my life, my wife Odile, for two decades of the most generous love and support.

CAST OF CHARACTERS

Adapted from Cast of Characters in Steil (2013: 355-369)

Adler, Solomon ("Sol") (1909-1994). American progressive economist. Department of the Treasury, 1936-50. Spent many years in China, during and after his government service. Accused by Whittaker Chambers and Elizabeth Bentley of being a Soviet agent.

Arndt, Ernst Heinrich Daniel (1899-1983). Born in Bloemfontein. Obtained his BA in Economics in 1920, with Holloway being one of his lecturers. In 1922, he obtained an MA with a thesis "Inconvertible Paper Money in South Africa" and, in 1924, obtained a Ph.D. with a thesis "Currency Development in South Africa", both from Columbia University in New York. In 1925, Arndt occupied the Chair as Professor of Economics at TUC (later Pretoria University), after Holloway left to head the Census Office. Arndt served for ten years as the Deputy Governor to M H de Kock at the SARB.

Berle, Adolf (1895-1971). American lawyer and diplomat. Assistant Secretary of State, 1938-44. One of FDR's trusted advisers.

Bernstein, Edward Morris ("Eddie") (1904-1996). American economist. Professor of Economics at the University of North Carolina, 1935-40, Principal economist, Department of the Treasury, 1940-46; Assistant to Harry Dexter White during the negotiations leading up to and including the Bretton Woods negotiations, 1940-44. Friendly, and jocularly sparring, correspondent with John Maynard Keynes, Research Director of the IMF, 1946-58.

Beyers, Frederik William (1867-1938). Advocate, Member of Parliament for the National Party for Edenvale, 1918-1929; Minister of Mines and Industry, 1924-1929; Judge of Appeal Court, 1932-1938.

Brand, Robert (1878-1963). British civil servant and banker. British Treasury representative in Washington, 1944-46. A strong proponent of Anglo-American cooperation who shared Keynes' liberal sympathies.

Bruwer, Andries Johannes (1896-1983). Born on the farm Mymering, Ladismith District, Karoo. Obtained BA from Victoria College (later Stellenbosch University); 1915; an MA from Harvard in 1920 with a thesis "Currency, Banking and Exchange in South Africa"; and a Ph.D. from the University of Pennsylvania in 1922 with the thesis "Protectionism in South Africa". Chairman of the Board of Trade and Industry, 1924-1932. Chairman of the Rand Water Board, 1955-1968. Author of numerous books.

Burgess, Randolph (1889-1978). American banker and diplomat. Represented the interests of the New York banking community during the Bretton Woods negotiations. Opposed the IMF blueprint as unsound.

Burton, Henry (1866 – 1935). Born in Cape Town, he matriculated from St. Andrew's College in Grahamstown and obtained his L.L.B. by private study in 1886, practicing law in Kimberley. In 1897 he stood, unsuccessfully, for the Afrikaner Bond against Cecil John Rhodes at Barkly West. He made a name for himself defending Cape Afrikaners who had taken up arms against the British in the Boer War. Burton served in various ministerial posts, including as Minister of Finance, 1916-1917 and again from 1920 – 1924.

Bystrov, F. P. (unknown). Professor of Finance, Institute of Foreign Trade, U.S.S.R. He and his wife were friends of Harry and Anne White.

Catto, Lord (Thomas) (1879-1959). Scottish businessman and banker. Governor of the Bank of England, 1944-49. Born into a solidly working-class family, he still found common ground with Keynes, and the two became close friends.

Chamberlain, Austen (1863-1937). Son of Joseph Chamberlain and older half-brother of Neville Chamberlain. Chancellor of the Exchequer, 1903-1905 and again 1919-1921. Secretary of State for Foreign Affairs, 1924-1929.

Chambers, Whittaker (1901-1961). American journalist. Communist Party member and Soviet agent turned FBI informant.

Churchill, Winston (1874-1965). British Conservative politician. Chancellor of the Exchequer, 1924-29; Prime Minister, 1940-45 and 1951-55. Keynes strongly opposed his returning Britain to the gold (or "gold exchange") standard in 1925.

Creswell, Frederic (1866-1948). Born in Gibraltar, Creswell worked as a mining engineer in Venezuela, Asia and South Africa, before becoming a mine manager. He became involved in politics in opposing the use of Chinese labour in South African gold mines. In 1910, Creswell got elected representing the South African Labour Party, of which he was leader from 1910 until 1929. He was Minister of Labour from 1924 to 1925 and again from 1929 to 1933 in the Pact Government. He earned the rank of Lieutenant-Colonel in World War 1.

Cunliffe, Lord (Walter) (1855-1920). British banker. Governor of the Bank of England, 1913-18. Angered by Keynes' support of Treasury policy to defend the dollar-sterling exchange rate in 1917, he tried to have him fired.

De Kock, Michiel Hendrik (Mike) (1898-1976). Born on a farm in the Malmesbury district, de Kock completed a BA at Victoria College (later Stellenbosch University). He completed a Masters and then a Ph.D. at Harvard with a thesis "The Finances of the Union of South Africa". De Kock was then a lecturer at the University of Cape Town, before being recommended by Bruwer to be a director of the Board of Trade and Industry. De Kock also served as Chairperson of the Diamond Board. De Kock became special advisor to the Minister of Finance, N. C. Havenga, on the SARB from at least June 1927, where he undertook a clandestine visit to a number of central banks, including the US Federal Reserve, de Kock joined the SARB as an advisor from 1 January 1931, was appointed Deputy Governor from 1 January 1932, and finally Governor, 1945-1962. De Kock was succeeded by his brother-in-law, Theunis Willem (Bob) de Jongh, 1967-1981; who in turn was succeeded by Gerhard de Kock, 1981-1989, the son of M H de Kock.

Eady, Sir Wilfrid (1890-1962). British diplomat and Treasury official. Member of the British delegation at Bretton Woods. Opposed Keynes' conduct of the American loan negotiations in 1945.

Eccles, Marriner (1890-1977). American banker. Chairman of the Federal Reserve, 1934-48. Member of the American delegation at Bretton Woods. Unusual amongst bankers for appreciating the concept of aggregate demand.

Farrer, Edmund Hugh (1876-1955). Born in Marylebone, Britain, became Secretary for Finance of the Union of South Africa in 1918. He retired from this post to become the director of De Beers in about 1930.

Fetter, Frank Albert (1863-1949). American economist of the Austrian School. Completed his Ph.D. at the University of Halle, Germany. Fetter was a close friend of Edwin Kemmerer. Both economists taught at Cornell and then Princeton. Fetter was the Chairman of Princeton University's Department of Economics. Like Kemmerer, Fetter was an opponent of FDR, and in 1933 worked on the campaign to reintroduce the gold standard.

Fetter, Frank Whitson (1889-1991). Son of Frank Albert Fetter, Fetter (Jnr) received his Ph.D. in economics from Princeton in 1926. Unlike his fundamentalist sound money father, Fetter junior was far more broadminded in his thinking, in editing the papers of the production-focused Thomas Attwood, and the more complex Robert Torrens, and writing an account of both sides of the argument in his masterful *The Development of British Monetary Orthodoxy*.

Fourie, Adriaan (Attie) (1882-1941). Teacher and later member of Parliament of Somerset East for the National Party from 1920. Minister of Mines and Industry, 1929-1933; in the Pact government, and Minister of Commerce and Industry, 1933-1938. Minister of Railways and Harbours, 1938-1939.

Foxwell, Herbert Somerton (1849-1936). English economist, born in Somerset, England. Held the Chair of Economics at University College, London from 1881 until 1927.

Geyer, Albertus Lourens (1894-1969). Editor of *Die Burger*, 1924-1945. "Clashed with Hertzog, who was leader of the National Party from 1914 until 1934 and over-sensitive to criticism from fellow-nationalists" (Giliomee; 2003: 408).

Gillett, Margaret (née Clark) (1878-1962). Activist for women and children in Boer War concentration camps. Friend of Jan Smuts.

Harvey, Ernest Musgrave (1867-1955). Chief Cashier of the Bank of England from 1918 to 1925. Deputy Governor from 1929 to 1936.

Havenga, Nicolaas Christiaan (Klasie) (1882-1957). Private secretary to General Hertzog during the Boer War, he was wounded several times. Finance Minister from 1924-1939, and again from 1948-1954.

Hayek, Friedrich (1899-1992). Austrian-born British economist. Widely known for his defence of free-market capitalism and classical liberalism. Though intellectually opposed to Keynesianism, he and Keynes maintained a warm and respectful relationship. Awarded the Nobel Prize in Economic Sciences in 1974.

Hertzog, James Barry Munnik (1866-1942). Born in Wellington in the Cape, he studied law first at Victoria College, Stellenbosch, and in 1889 at the University of Amsterdam, receiving his Ph.D. in 1892. He practiced law in Pretoria from 1892 until 1895, and served as a General in the Boer War. Hertzog served as leader of the National Party from 1914 until 1934, and Prime Minister from 1924 until 1939.

Hofmeyr, Jan Hendrik (1894-1948). Born in Cape Town, graduated with first class honours from South African College (later University of Cape Town) aged 15 in 1909. After studying at Oxford, Hofmeyr became Professor of Greek at the University of Cape Town. Member of Parliament for Parktown North for the South African Party, from 1929, and later United Party. Minister of Finance, 1939-1948. Supporter of the gold standard, voting against the policy of the South African Party in 1932.

Holloway, John Edward (Jack) (1890-1979). Holloway received his PhD in Economics from the London School of Economics in 1917. He was Director of Census and Statistics (what is today Stats SA), 1925-37. Secretary of Finance of the Union of South Africa, 1937-50. Ambassador to Washington, 1954-56 and High Commissioner in London, 1956-58.

Holloway, Tienie (1888-1967) (née Purchase). Married J. E. Holloway in 1913, with whom she had five children. Author of Afrikaans children's books.

Hopkins, Sir Richard (1880-1955). Treasury official responsible for re-introducing Keynes as adviser to the Treasury during World War II.

Hull, Henry Charles (1860-1932). Born in Caledon, Hull moved to Kimberley where he qualified for the bar and was admitted to practice. Hull moved to Johannesburg in 1889 and got involved in the Reform Committee and was fined £2 000 for treason. He fled Johannesburg in 1899, and fought for the British during the Boer War. He became the first Union of South Africa Minister of Finance in 1910, but resigned in 1912 in protest against the policy of the Minister of Railways.

Kemmerer, Edwin Walter (1875-1945). Born in Scranton, Pennsylvania. Edwin's father was a railroad official. He graduated from Wesleyan University and was awarded a Ph.D. in Economics from Cornell University. In 1912 he was made Professor of Economics at Princeton University. Kemmerer was recommended by the U.S. State Department to foreign governments seeking monetary advice and became known as the "Money Doctor". Kemmerer was close to leading figures on Wall Street and was paid a retainer and commission by Dillon Reed. Kemmerer is dealt with more fully in Chapter Five of this thesis.

Keynes, John Maynard (1883-1946). Born in Cambridge, Britain, Keynes went to Eton and then Cambridge University, where he graduated with a first class BA degree in mathematics. Keynes is dealt with in more depth in Chapter Five of this thesis.

Lloyd George, David (1863-1945). British Liberal politician and statesman. Chancellor of the Exchequer, 1908-15; prime minister, 1916-22. Thought Keynes impulsive and mercurial and personally struck his name from the 1917 royal honours list. Keynes, for his part, detested Lloyd George through the course of World War I and the Paris Peace Conference, though his view later softened considerably.

Lopokova, Lydia (1892-1981). Russian ballerina and wife of Keynes. Born in St. Petersburg and trained at the Imperial Ballet School. Toured with the Ballets Russes in 1910, directed by Diaghilev. Married Keynes in 1925.

Louw, Eric Hendrik (1890-1968). Born in Jacobsdal in the Free State. Obtained BA degree from Victoria College (subsequently Stellenbosch University). Member of Parliament for

Beaufort West for the National Party from 1924; became South Africa's first Trade Commissioner in the United States and Canada. Minister of Finance, 1954-1956; Minister of Foreign Affairs, 1955-1963.

Luxford, Ansel Frank (1911-1971). American lawyer and government official. Assistant secretary of the Treasury, 1944-46. Chief legal adviser to the American delegation at Bretton Woods.

Marshall, Alfred (1842-1924). British economist. One of the great founders of the modern discipline of economics. Chose Keynes as a teaching assistant at King's College, Cambridge in 1908, which was instrumental in Keynes' election to a life Fellowship at age twenty-six.

Melchior, Carl (1871-1933). Born in Hamburg. Studied law and was appointed a judge. Advisor to the German government at the Treaty of Versailles, Melchior advised his government not to accept the reparations as demanded. Served on the board of the Bank of International Settlement from 1930-1933. Removed by the Nazis from that post in 1933, Melchior died of a stroke in December 1933.

Morgenthau, Henry (1891-1967). American politician. Secretary of the Treasury, 1934-45. Longtime trusted friend of FDR. Had an important symbiotic political relationship with White, on whom he depended for policy formulation and who in turn depended on him for advancement and wider influence.

Norman, Lord Montagu Collet (1871-1950). British banker. Governor of the Bank of England, 1920-44. He and Keynes were frequently and openly at odds intellectually, particularly over the gold standard.

Pigou, Arthur Cecil (1877-1959). British economist. Fellow of King's College, Cambridge, 1902-59. He and Keynes had an intellectual falling-out in the 1930s. Stung by the manner of Keynes' criticisms, Pigou wrote a particularly cutting critique of Keynes' *General Theory*.

Pinkham, Joan (neé White) (1929-2012). Daughter of Harry and Anne White. Married Professor Lawrence Dana Pinkham of Columbia's School of Journalism in 1957. They spent eight years in China, and from 2001-2002, Professor L. D. Pinkham was the Dean of the Asian

College of Journalism in Chennai, India. Joan Pinkham worked as a translator, translating Aimé Césaire's *Discourse on Colonialism* into English.

Reitz, Deneys (1882-1944). Son of Francis William Reitz, former President of an independent Orange Free State. Fought in the Boer War against the British. Fought with Smuts to put down the Maritz Rebellion, and later on the Western Front in 1918. Member of Parliament for Smuts' South African Party in Bloemfontein from 1915. Minister of Agriculture and Irrigation, 1933-1939. Minister of Native Affairs, 1939-1943.

Reitz, Francis William (1844-1934). Born in Swellendam, graduated from South African College (later University of Cape Town) with the equivalent of a BA in 1863. Chief Justice of the Orange Free State, 1876-1889; President of Orange Free State, 1889-1895.

Robbins, Lionel (1898-1984). British economist. Professor, London School of Economics, 1929-61; director, Economic Section of the War Cabinet Offices, 1941-45. Member of the British delegation at Bretton Woods. A non-Keynesian free trader, he eventually came to accept Keynes' thinking on public spending in slumps. Became an important ally at Bretton Woods.

Roosevelt, Franklin Delano (FDR) (1882-1945). Born in Hyde Park, New York. Graduated from Harvard College. American politician. President, 1933-45 and introducer of 'the New Deal'. Keynes admired Roosevelt for his bold economic policy interventions.

Schumpeter, Joseph (1883-1950). Born in Triesch, Habsburg Moravia. Studied law at University of Vienna and obtained Ph.D. in 1906. Political scientist. Famous for his focus on innovation and entrepreneurs as the critical drivers of the capitalist economic system. Was highly critical of Keynes' methods and "stagnationism".

Skidelsky, Lord Robert (1939-). Born in Harbin, China. British economic historian. Professor emeritus of political economy at Warwick University. Author of a three-volume prizewinning biography of Keynes.

Smuts, Jan Christian (1870-1950). Born on a farm near Malmesbury. He graduated from Victoria College (later Stellenbosch University) in 1891, and from Cambridge University with

a double first in 1894. Smuts served as a State Attorney in Kruger's South African Republic, and as a General in the Boer War. In WW1, Smuts led the invasion of German South West Africa. Smuts befriended Keynes when he was a negotiator at the Treaty of Versailles. Smuts served as Prime Minister from 1919 until 1924, and again from 1939 until 1948. Smuts tended to support Britain after the Boer War, was a confidant of Churchill in WWII.

Snyder, Carl (1869-1946). Statistician in the research department of the New York Federal Reserve. President of the American Statistical Association, 1928. Snyder had been a journalist and editorialist, and had conducted a correspondence with Samuel Evans, and had meetings with Kemmerer.

Snyder, John Wesley (1895-1985). Born in Jonesboro, Arkansas, Snyder became friends with Truman while serving in Europe in WWI. Truman appointed Snyder Treasury Secretary in 1946 and he served until 1953. British Chancellor of the Exchequer, Hugh Gaitskell, described Snyder as "a petty small minded, small town semi-isolationist".

Strakosch, Sir Henry (1871-1943). Born in Hohenau, Austria, Strakosch was "privately educated in England", came to South Africa in 1895, and a year later joined A. Goerz and Co., becoming its Managing Director in 1902. Strakosch had a talent for ingratiating himself with the politically powerful, and gave money to Jan Smuts for his political campaigns, and to Winston Churchill twice (in 1938 and 1940) to bail him out of financial embarrassment. Strakosch wrote the Currency and Banking Act of 1920 which gave South Africa the SARB, and was a close associate of Montagu Norman at the Bank of England. He, together with his friend, and fellow "confirmed bachelor", Brendan Bracken, owned *The Economist* and *The Financial Times* together. Goerz and Co. began Union Corporation, and he remained Chairman until his death.

Totten, Ralph J. (1877-1949). US diplomat from Tennessee. Appointed US Consul General to South Africa on 19 December 1929 and presented his credentials on 30 June 1930. Promoted to Envoy Extraordinary and Minister Plenipotentiary on 8 September 1930. Presented his credentials to the South African Government on 8 September 1930. His mission to South Africa ended on 12 April 1937.

Truman, Harry S. (1884-1972). American politician. President, 1945-53. Signed the Bretton Woods Act into law in July 1945. Terminated Lend-Lease without warning a few weeks later, pushing Britain into a new phase of financial crisis. Transferred control of foreign economic policy from the Treasury to the State Department. He drove New Deal civil servants out of his administration and restored the relationship with Wall Street.

Van der Bijl, Hendrik Johannes (1887-1948). Son of Pieter van der Bijl, a wealthy merchant. Ph.D. in physics from Leipzig University. Robert Milliken (Nobel Prize winner for Physics) persuaded him to move to New York with his American wife, and work for Bell Laboratories. Brought back to South Africa by his friend, Jan Smuts, van der Bijl became active in State-led development, heading up Eskom in its foundational years.

Van Eck, Hendrik Johannes (1902-1970). Born in Kimberley, South Africa. Obtained a Ph.D. in chemistry from Charlottenburg, Germany. Invited back to South Africa to join the newly formed Eskom, Van Eck became Managing Director of the IDC upon its foundation in 1940. Together with his friend, H. J. van der Bijl, Van Eck was one of the leading advocates of state-supported industrialisation in South Africa.

van Ryneveld, Sir Pierre (1891-1972). Founder of the South African Air Force in 1920, Chief of the General Staff of the South African Armed Forces; 1933-1949.

Viner, Jacob (1892-1970). Canadian-born American economist. Intellectual opponent of Keynes and teacher of Milton Friedman. As an adviser to Treasury Secretary Henry Morgenthau, Viner brought White to Washington for his first government appointment.

Waley, Sir David (Sigismund David Schloss) (1887-1962). British civil servant. Under-secretary; Treasury; 1939-46. Prescient with regard to the problems American monetary schemes posed for Britain in the post-war period, he urged Keynes to consider the possibility of Britain borrowing money privately as an alternative to cooperating with White and Morgenthau. Keynes emphatically rejected this advice.

White, Anne Terry (1896-1980). Born in Ukraine, Anne Terry emigrated to the United States with her parents in 1904. She did her undergraduate studies at Brown University, and obtained a master's degree from Stanford University in 1925. She was the author of children's books.

Anne married Harry Dexter White in 1925 and shared his progressive political views. After her husband died in 1948, Anne was made a pariah in the US by the FBI.

White, Harry Dexter (1892 – 1948). Born in Boston to Jewish Lithuanian immigrant parents, White served as a Lieutenant in the US Army 1917-1918. White was an older university student, graduating from Stanford University, and obtaining his Ph.D. from Harvard University, where his thesis was published as a book in 1933. In 1934 Jacob Viner recommended White for a temporary post at the US Treasury Department, where White remained for the rest of his career. White was the chief negotiator for the US at the Bretton Woods Conference.

Wilson, Woodrow (1856-1924). Born in Staunton, Virginia. American scholar and politician. President, 1913-21. Lampooned by Keynes in his book *The Economic Consequences of the Peace*. Wilson's losing fight with the Senate over the United States joining the League of Nations was influential in shaping FDR's Bretton Woods strategy.

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CHAPTER ONE: INTRODUCTION

This dissertation covers the period from the First World War to just after the Second World War, one of shocking instability, economic mayhem and death, and one in which monetary systems and monetary theory were shaken to their roots. Despite its relatively small economy and its geographic isolation, as the world's largest gold producer South Africa punched above its weight in global monetary policy debates.

Despite the misery, this period produced a flowering of competing ideas, and policies, including those on money, currency, and finance. Internationally, and in South Africa, the debate raged between the "sound money" men who were favoured by private international bankers, who thought that globally free flowing capital and goods were all-important, and those who thought that money should serve national production, within a system in which state-led development was prominent.

"Sound money" is a well-known and accepted term in the history of economic thought. It expresses in two words a simple and elegant theory that money of a fixed supply is exogenous to the economy. Its corollary is that this fixed and unchanging globally-accepted money facilitates an international laissez faire system in which capital, labour, and goods can move freely across the world. Sadly, the world is not elegantly simple and one has to sympathize with those who, like Keynes (1936: 371), "have preferred to see the truth obscurely and imperfectly rather than to maintain error, reached indeed with clearness and consistency and by easy logic, but on hypotheses inappropriate to the facts". These thinkers understood that money is not fixed, but is a social convention, like a legal system, adaptable when it suits society. Skidelsky uses the pithy alternative terms "hard money" and "soft money"[1] (Skidelsky; 2018: 39) to describe the polar opposite schools that I will consider in this dissertation. The benefit of these terms is that they describe the types succinctly. But if the writer wants to express the normative quality, rather than merely positive description of these two categories, then Skidelsky's (2018: 39) labels do not suffice. If instead the question is asked - What is the *virtue*, in terms of Aristotelian Virtue Ethics[2] of these to respective approaches to money? What is money's purpose in these two approaches? This yielded the answers for the Hard/ Metallist approach - to be sound (that is reliable, dependable), to be the

[1] And alternatively, "Metallist" and "Nominal" (Skidelsky; 2018: 39).
[2] As suggested by McIntyre (1981).

one variable that was held steady, while the price of other goods and services varied in a Walrasian auction. The answer for the Soft/ Nominalist approach was - to aid development. To contribute to full employment, the proper functioning of a welfare state, to a society which meets the needs of its members. 'Sound money' implies a *virtue* intrinsic to this school of thought, and for balance the alternative, favoured in this thesis, deserves to have an equivalent virtue embodied in its name. Accordingly, in this dissertation it will be referred to as 'development money'.

In this thesis, 'development money' will mean any use of money as a tool to achieve full employment. Development money thinkers tend to concern themselves with advancing the stability and prosperity of those productive sectors of the real economy that can absorb the unemployed. Such thinkers also ascribe important roles to state investment and the regulation of the financial sector.

The period 1914-1950 started with the sound money men, and their banker friends, exercising substantial power in Britain and the US. International opinion shifted to favour national development with Franklin Delano Roosevelt's New Deal in 1933. The resulting era of progressive monetary and banking policy, loved by many governments in the developing world, was treated with suspicion by the international bankers and their 'men'. Britain advocated a gold exchange standard, as London still held the dominant position in the trade in gold, but had to operated off a minuscule gold bullion base. As de Cecco put it:

> The Bank of England had never controlled the international gold market by the power of a formally owned stock. It had controlled it through the management of South African gold supplies and by compelling the India office to invest the Indian trade surplus in Sterling balances. After the (First World) war those two instruments were both gone … They therefore tried the gold exchange standard card as a last resort (de Cecco; 1985: 51).

In the 1920s, despite the sound money men being firmly in control of British and American policy, two economists, who would later be the chief negotiators for their respective governments at Bretton Woods, took dissenting positions against this orthodoxy. They were John Maynard Keynes and Harry Dexter White. Chapter five contrasts their development money thinking with the sound money thinking of the American "money doctor" Edwin Kemmerer.

As Rauchway (2015) and Helleiner (2014) point out, Keynes and White, were much closer to each other ideologically than their sparring at Bretton Woods would suggest. From as far back as *Indian Currency and Finance* (1913) (hereinafter *ICF*), and more stridently in the *Tract on Monetary Reform* (1923)(the *Tract*) the *Treatise on Money* (1930) (the *Treatise*), and the *General Theory of Employment, Interest and Money* (1936) (the *General Theory*), Keynes had set out a theoretical and policy framework which rejected the dominant international sound money laissez-faire orthodoxy. As Skidelsky summarised it: "The history of the Keynesian revolution is largely a story of Keynes's escape from the quantity theory of money" (Skidelsky; 1983: 214). Before WWI, Keynes supported international free trade, the gold standard, and the free movement of capital that it allowed. But after the enormous imbalances between American creditors and British and European debtors that had built up in the war, and the mean-spirited debts that were forced upon the Germans at the Treaty of Versailles, Keynes began to realise that a focus on national full employment and stability was more important than attempts to prop up an international gold standard that was doomed to fail.

In 1923, when considering the situations of creditor and debtor nations, Keynes marked himself as unfriendly to internationally mobile capital; arguing against the gold standard in the *Tract.* He was even more forthright ten years later in Dublin when he stated, "let goods be homespun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national" (Keynes;1933: 756). In the fight between the interests of creditors and debtors, Keynes went on to place himself as one "who in the last resort prefers anything on earth to what the financial reports are wont to call 'the best opinion in Wall Street'" (Keynes; 1933: 762).

Harry Dexter White, the Roosevelt Treasury's chief negotiator at Bretton Woods, undertook in his Ph.D. "to test and verify the doctrines of the orthodox theory of international trade" (White; 1933: I). He opened chapter one with the statement that, "The theory of international trade has at no time remained undisputed", and noted that, at the time of writing, the adjustment mechanism, which "only a generation ago was regarded as impregnable", was now the subject of much doubt (White; 1933: 1). White was conscious that the extent to which capital flowed into a country as loans; and was spent in the country, depended on the level of development in that country, and whether local goods necessary for development were readily available (White; 1933: 21). Like Keynes, White rejected the notion that factors of production,

particularly labour, will tend to be fully employed if the price (the wage rate) is fully flexible. Like Keynes in the *General Theory*, he understood that "equilibrium" might come from an adjustment in output (White; 1933: 25-26). Like Keynes too, White focused on demand in an economy – what Keynes called "effective demand" (Keynes; 1936: 23-36; White; 1933: 29).

White took a similar position in the conclusion of his book:

> The French experience in the matter of capital exports leads to the conclusion that the orthodox attitude towards unrestricted capital exports is open to criticism, the assumption that capital exports benefit both the lending country and the world at large is not unassailable. … some intelligent control of the volume and direction of foreign investments is desirable (White; 1933: 311-312).

Ansel Luxford, White's Bretton Woods colleague, would state in a World Bank Oral History Program interview on 13 July 1961 that "White was hated in the banking community as perhaps no other man in the United States has been hated" (Luxford; 1961: 21, quoted in Conway; 2014:342).

Against Keynes and White stood the "sound money" men; the darlings of Wall Street. Wall Street's poster boy for over two decades had been Edwin Kemmerer, who was a one-man-IMF of the 1920s. Well-connected on Wall Street, and paid a retainer by a Wall Street bank, Kemmerer was recommended as a "money doctor" by the State Department of US administrations in the 1920s. As such, he was in a uniquely powerful position when dealing with under-developed countries eager to secure Wall Street loans during the foreign lending boom of the 1920s. His recommendations included the return to, or the establishment of, the gold standard, and the establishment, or the strengthening of the reserves, of a central bank. In Latin America, he usually included the consolidation of public debts, and the reform of the public administration and tax policies, including balanced budgets, or budgets in surplus, to allow for the repayment of loans (Rosenberg; 1999: 151-152). *Kemmerer on Money* (1934), was a summation of his thought. It was published a year after he lost the support of the US Administration, and four years after Wall Street ran out of liquidity for foreign loans.

The theory that Kemmerer offered in support of his "money doctor" work, rested on Hume's price-specie flow mechanism (Hume, 1752). His expression of it was that if "the supply of

money in the country becomes excessive relative to the demands of trade, as compared to the supply of money in other countries, money becomes cheap at home relative to the money abroad; prices of commodities… tend upward at home as compared with such prices abroad" (Kemmerer; 1934: 113). This would discourage exports and encourage imports, reverse the imbalance and restore equilibrium. This was the hypothesis at the international level. This thesis will test this hypothesis in the context on South Africa between 1914 and 1950. At the local level in South Africa, a similar debate unfolded in which two Afrikaner economists played a leading part.

The focus of this dissertation is on these two economists. The first of these two economists, Andries Johannes Bruwer, was born on a farm in the Ladismith district in the Karoo in 1896, obtained his Ph.D. from Pennsylvania in 1922. The second, John Edward (Jack) Holloway, was also born on a farm, in the Hopetown district in 1890, obtained his doctorate from the London School of Economics in 1917 (Botha; 2002) (Bruwer; 1957). Bruwer and Holloway played crucial roles in the monetary policy debates of the period 1914-1950. This was the era that saw the establishment of the SARB in 1921, the various somersaults over the Gold Standard (1919, 1920, 1925 and 1932), the Great Depression (1929-32), and from 1941, the prolonged international negotiations that eventually led to the Bretton Woods System.

In addition to Bruwer and Holloway, a third Afrikaner economist, Dr Michiel (Mike) Hendrik de Kock, got his Ph.D. from Harvard in 1922. De Kock was born on a farm in the Malmesbury district in 1898 (Elhers; 2018: 61-62). But unlike Holloway and Bruwer, for whom excellent, and full, public and private archives exist, I have failed to find an archive of de Kock's papers. As a consequence of this lack of original material, I have excluded de Kock from the main focus of this dissertation and concentrated on the material from the papers of Holloway and Bruwer. Should a future researcher find private papers of Dr M. H. de Kock, they would be able to make a meaningful contribution to the literature. Bruwer's and Holloway's rich archives, both private and official, have not been previously explored. Qualified Afrikaner economists were in short supply in this era. The state had been captured by British imperialists who ruled the country directly until 1910, and dominated the South African Treasury even after Union in 1910.

Just how much demand outstripped supply for economists, in the era of Afrikaner affirmative action, is indicated by the fact that Holloway noted about a directorship of the International

Monetary Fund (hereinafter IMF) in the late 1940s, "Australia and South Africa shared a director's seat on the Board of Directors. By a gentleman's agreement we would take turns. South Africa was, however, very short of qualified men. We left the first few turns to Australia."[3]

In the British and American archives, and as confirmed by correspondence in Holloway's archives, there was communication between Keynes and Bruwer, Keynes and Holloway, and Holloway and Kemmerer. The international debate and the South African one were not isolated from each other. Bruwer communicated with Keynes at the time of South Africa's self-imposed currency hardship in 1932, and again in February 1944, and Edwin Kemmerer was in regular contact with the laissez-faire sound money advocates in South Africa, including C. S. Richards, Samuel Evans and J. E. Holloway. Holloway hosted Kemmerer for "drinks" at his house during the Kemmerer-Vissering Commission, and "stayed at his home in Princeton one night in 1932".[4] Evans shared with Kemmerer the newspaper clipping of Bruwer's *Rand Daily Mail* article in 1932, attacking South Africa's clinging to the gold standard. In 1975 Holloway, together with his son, visited the home of Kemmerer's son Donald, and wrote to thank him for his "hospitality and stimulating visit".[5] Donald shared his father's "sound money" ideas./[6] These connections are explored in chapters five to ten.

The prelude to the South African debate is the trauma of that invasion that is known internationally as the Boer War, but is perhaps better described by its Afrikaans name, "Die Tweede Vryheidsoorlog" (The Second War For Freedom), a freedom which the fellow Afrikaners of Holloway and Bruwer lost in 1902, with devastating consequences. Britain lost its dominance over the world's real economy towards the end of the 19th century; coercive

[3]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J. E. Holloway entitled *The Failure of the Bretton Woods System* dated 7 December 1978, page 3.

[4]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/A1/1 letter from Holloway to Donald Kemmerer dated 5 March 1975.

[5]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/A1/1 letter from Holloway to Donald Kemmerer dated 24 April 1975.

[6]As is evident from his own work, see Donald L Kemmerer and Bruce R Dalgaard (1983) and Rene A Wormser and Donald L Kemmerer (1974) as examples.

control of the world's financial system, based on the international gold standard, became critical to maintaining its political dominance. Hence its increased interest in the areas which came to be called the Transvaal and the Orange Free State.

After the defeat of the Boer Republics in 1902, Alfred Milner's British Imperial administration attempted to wipe out the Afrikaans language and culture. The papers of Bruwer and Holloway discuss their personal experience of British jingoism. Bruwer talked about having to write out a thousand times "I must not speak Dutch … I must not speak Dutch".[7] At that stage, Afrikaner youth still learnt "High Dutch" at school. Holloway got into fist fights at Grey College, Bloemfontein, responding to jingoist insults from British imperialists.[8] This experience set the stage for Bruwer and Holloway to join Barry Hertzog, Nicholas C (Klasie) Havenga, and other Afrikaner nationalists in using South Africa's recommitment to a world gold standard, independent of Britain, as a step towards greater independence. In their testimonies before the Kemmerer-Vissering Commission, Holloway and Bruwer welcomed American leadership of an international gold standard (see pages 158 - 160**).**

Just after WWI, the majority of educated opinion was in favour of balanced budgets, small government, sound money via the international gold standard, and international free trade. Many Afrikaner nationalists were sceptical of this British monetary orthodoxy. Why take at face value a monetary policy espoused by the same people who had invaded your republics, suppressed your home language, burnt your farmsteads, shot your cattle, and imprisoned your women and children? Bruwer questioned this orthodoxy in articles in the press. Holloway and Bruwer, and Afrikaner nationalists in general felt much hope when, in June 1924, the National Party came to power with the help of the Labour Party, to form the Pact government.

Thanks to his wife Sannie's family connections, Bruwer was already on dining terms with Hertzog before the 1924 election, and was the most politically connected of the Afrikaner

[7]First batch of the memoirs of Dr A J Bruwer, page 15, A J Bruwer Papers, Archive for Contemporary Affairs, University of the Free State.

[8]J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 17th July 1911.

economists in 1924.[9] While Holloway was still an academic (as Professor at Transvaal University College, now the University of Pretoria), Bruwer was the first to secure a senior position in the state, as Chairman of the Board of Trade and Industry. Once the Afrikaner nationalists in the Pact government settled into their offices in 1924, new fault lines opened up between those, exemplified by Finance Minister N. C. (Klasie) Havenga, and supported by Holloway, who saw cooperation with British Imperialists as central to governance, and those like Bruwer, who were determined to achieve the national self-determination that the electorate had mandated. This rift within the state came to a head over the financial crisis, triggered by the New York Stock market crash of October 1929, which mutated into a worldwide banking and currency crisis in 1931, forcing Britain and other countries off the gold standard.

South African farmers were hit with a double blow. Firstly world-wide demand for commodities had fallen, and secondly, the decision to remain on the gold standard when other countries had left it meant that the SA Pound was overvalued, further lowering the local prices of SA commodity exports. Bruwer was moved by the hardships that were placed on South African farmers by an over-valued currency. His view that money must serve national production informed his immediate advice that government must also devalue the currency. But Hertzog, and Havenga, advised by Holloway, were stiff-necked in their determination to maintain the gold standard, regardless of the cost to the real economy. Bruwer enjoyed the protection of the Minister of Mines and Industry, Advocate Fredrik William Beyers, to whom his Board reported, from 1924 until 1929, even when writing articles in the press in open defiance of government policy. But after the 1929 election, won outright by the National Party, Beyers was replaced by a friend of Havenga's, "Attie" Fourie, a party man who was not going to rock the Prime Minister's boat, and the protection that Bruwer had enjoyed from his Minister ended. Holloway's views matched those of the ruling Afrikaner Nationalist elite, his actions behind the scenes during the gold standard crises of 1932 were of great assistance to them, and

[9]Third batch of the memoirs of Dr A. J. Bruwer, page iii, A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State. Sannie, her mother and her siblings had to flee during the Boer War, to avoid being interned in a concentration camp. Her father, Commandant van Rooyen, was actively involved in the Boer War, and knew General Hertzog personally. He was shot dead at Mushroom Valley, in the Free State, during the period of the Maritz Rebellion in November 1914.

his career took off. By contrast, Bruwer's defiance of Havenga and his "Milner men"[10] in a crisis, meant that he was banished to the wilderness.

Despite their defeat of Bruwer in February of 1932, the "sound money" men had to face the failure of their policy when South Africa was forced off the gold standard at the end of 1932. Many of Bruwer's ideas were quietly implemented by Jack Holloway after he became Secretary for the Treasury in 1934, and particularly during WWII. Holloway would go on to have a career which would cause Professor Joubert Botha say of him that, "There can be very few people in public service in South Africa *over the whole of the twentieth century* whose influence on national economic policy at the highest level was as significant, pervasive and enduring as that of Jack Holloway" (Botha 2002: 17-18) (italics his). Holloway appeared to have learned from his disastrous support of a fixed price gold standard in the 1930s. At Bretton Woods when he stated more forcefully the ideas set out very tentatively in his report before the parliamentary Select Committee in 1932, ideas that Bruwer repeated to Keynes in his correspondence in early 1944. They were that the price of gold, relative to production and trade within the world economy, needed to adjust, within the proposed Bretton Woods system, in order for equilibrium to be maintained.

Kemmerer (1934: 136-153) discussed this idea as the "commodity dollar" and credited Fisher (1911) with developing it. Fisher fleshed the idea out more fully in *Stabilizing the Dollar* (1920), which provided an erudite and sophisticated rebuttal of the crude arguments made at the time by "sound money" proponents, including those in South Africa. Fisher described the need to vary "suitably, the weight of the dollar. The gold dollar is now fixed in weight and therefore variable in purchasing power. What we need is a gold dollar fixed in purchasing power and *therefore variable in weight*" (Fisher; 1920: 90) (italics his). I have found no evidence of Holloway having read Fisher (1920), and it is likely that he did not. It took Holloway until 1943-44 to articulate this idea with clarity. In the crucial 1932 debate, Holloway emphasised the sound money position of Kemmerer and then, despite the logical incongruency, as an afterthought suggested the soft money idea that Fisher (1920) articulated,. Keynes dealt with Fisher's (1920) ideas in the *Tract* and the *Treatise* (1930). Holloway proposed the soft money idea formally at the conference in June 1944, to the approval of Keynes. Holloway also seemed to take notice of Bruwer's criticisms of the SARB in the 1921-

[10]The British Imperialists in the Treasury who exercised an influence over the Union government.

34 period. Like Bruwer, Holloway was anxious to avoid a repetition of the servitude imposed by Britain after the Boer War, when every single ounce of South African gold was sent, unprocessed, on British ships, to the Bank of England. There it was refined, and then sold by Rothschilds, at the "official" price in London, even though higher prices were to be had in the U.S.A. and India. Holloway felt that he had reached an agreement with the Americans on the centrality of gold in the Bretton Woods system, an adjustment of the gold price within the system, and on gold producers having the right to sell their gold independently of the Bretton Woods institutions, to the highest bidder, on the international market**.**

Sadly, Holloway noted that his faith in the freedom of the international monetary mechanism post-Bretton Woods was misplaced. In an incident that left an indelible mark on his psyche, Holloway witnessed his finance minister (Klasie Havenga) being bullied by U.S. Treasury Secretary J.W. Snyder at an IMF meeting13 September 1949, because Havenga was insisting on South Africa's right to sell her gold to any buyer in world, at the best price[11]. In 1952, Havenga, once again Finance Minister, offered Holloway "a seat on the board (of the IMF, which was obviously due to South Africa that year). Its only attraction was a fat remuneration". Holloway declined the offer on principle, in protest at the American-led institutions abusing their custodianship of the international monetary mechanism to their own national advantage, as the British had done before them.[12]

Holloway maintained his faith in an international gold standard to his dying day,[13] rejecting Bruwer's alternative model, which placed the state at centre stage in the quest for development. There are clear signs of a schizophrenia in Afrikaner nationalist circles in the period after 1924. Fierce nationalists in opposition determined to uplift their people from the ruins of British Imperialism until they gained power. We see Havenga for example taking the

[11]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R M S Queen Elizabeth stationery dated 24 September 1949, page 1.

[12]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 3/1/1 Letter from W. Benton Spires to Holloway dated 10 December 1958.

[13]His funeral pamphlet had on its cover, both above his photograph, name, birth and death dates in Afrikaans, and below them in English the words "Gold is unchangeable – Gold is honest money". http://www.genza.org.za/biblio/main.php?g2_itemId=37318 accessed on 22 February 2019.

advice of a Treasury civil service still led by Milner's old guard serving British interests. The state-lead national development which did take place in the period 1914 - 1950 was partially a result of the extent to which these National Party figures remembered their roots and their election promises, and partially principled nationalists, like Bruwer, ramming through policies of national development, at the cost of his career.

This dissertation focusses on the debate between Bruwer's proposed production-focused policy, and Holloway's "sound money" orthodoxy, and its later incorporation of development money ideas. But this South African debate was also mirrored at an international level, with economists like Keynes and White contesting against the Kemmerers of the world. Their debates provide a global perspective and depth to the narrative. The connection which I will demonstrate between Bruwer and Keynes, and between Holloway and Kemmerer, is equally fascinating. The inter-war period saw a crisis of capitalism. The great depression and the rise of state planning in Russia and Germany, and the American New Deal; all influenced South Africa. The challenges posed by the depression and the 'poor white problem' had to be addressed. Freeing the currency and public works programmes, or monetary and fiscal probity mixed with state capitalism – the options were remarkably similar. How these intellectual forces developed their thought in the period 1914-1950 as set out in chapters six, seven, eight, nine and ten; is a riveting story, and one which, as far as I am aware, has not yet been told.

The developments that form the core of this thesis occurred over a few decades in the first half of the 20th Century. Some of the early events date back over 100 years. Yet the theoretical and policy controversies of that period of extreme economic volatility, world wars, depression and radical uncertainty, never faded for long. Maxine Berg suggests that, "We need to open a dialogue where both historians and economists seriously read in economic history, and economic historians learn from the theories, techniques and histories of institutions and contexts of their sister subjects. The pressing issues of financial crisis, inequality and climate change call for a reformulation of current economic models" (Berg; 2019: 5). I hope to make a small contribution to that dialogue.

Today, a decade or so after the global financial crisis of 2008, and writing in the Lockdown occasioned by the Coronavirus crisis of 2020, with capitalism and the environment both under threat, the debate and differences between proponents of "sound money" and those who are

more “development oriented” remain as sharp and relevant today as they were then, (Padayachee; 2020).

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

In this chapter, the principal literature being reviewed is that of the history of monetary and related gold policy for the period 1914 – 1950, as well as the relevant literature on the Bretton Woods negotiations. It starts with the general literature covering monetary policy affecting the world, prior to 1914, and then moves on to include intellectual currents and thoughts in the 1914 to 1950 period. Next, it considers the literature dealing with the lead-up to Bretton Woods, the Bretton Woods negotiations, and the agreement itself. Finally, the literature on South African monetary policy in the period 1914 to 1950 is considered.

2.2. Literature on the dominant monetary and currency policy of the world prior to 1914

One of Edwin Kemmerer's closest friends was the Austrian School economist Frank Albert Fetter (1863 – 1949), with whom he shared a commitment to a gold standard on sound money principles, and an opposition to FDR's monetary policies. On the 30th of January 1934, Kemmerer admitted that he got "some useful criticisms on my chapter on the bullionist controversy" from his friend Frank Albert Fetter.[14] Interestingly, Fetter's son became one of the leading authorities on British monetary policy debates of the 19th century, editing the papers of the production-focused Thomas Attwood, as well as those of Robert Torrens (Kindleberger; 1980). His masterful *Development of British Monetary Orthodoxy* (1965) is a comprehensive study of all sides of the monetary debates, from 1797 until the fourth quarter of the 19th century, and the definitive text for both sides of the debate.

Fetter Jr gave a voice to the early development money thinker, Thomas Attwood, who had been influential at a time of difficulty for the industrial sectors in Britain, as Britain undertook the deflation necessary to get back on the gold standard by 1821:

> If human wants could stand still during the action of this fatal principle; if men could live without food and clothing for two or three years, until the reduction of the

[14] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 30 January 1934.

> circulating medium had acted alike in reducing the prices of all kinds of industry and commodities, then the social system might go on again, with no other injury than the secret and unjust transfer of the prosperity of debtors, into the hands of their creditors; and the far more ruinous transfer of the productive powers of the nation from hands accustomed and competent to do them justice (the entrepreneur, the producer), into other hands not accustomed and competent to guide them at all (the idle saver) (Attwood quoted in Fetter; 1965:76)

The debate in the period covered by Fetter (1965) was principally between the Bullionists, who blamed the suspension of the gold standard in 1797 on the over-issuing of banknotes by the Bank of England, and the "The Anti-Bullionist defenders of the bank (of England, who) argued that the decline of the exchanges was due to pressures exerted by extraordinary wartime foreign remittance and had nothing to do with the bank's domestic policy" (Laidler in Palgrave; 1987, Volume 1:290). The Anti-Bullionists like Thomas Attwood, argued that monetary policy should support the real economy. This was, however, a period of considerable importance for the South African debate in the 1931-32 period.

Fetter (1965) described how public debate on monetary policy subsided in the last quarter of the 19th century, as acceptance of the gold standard and its spread across the world, quietened the opposition. Writing in the mid-1970s, Marcello de Cecco chose for his *magnum opus* the period 1890 – 1914. *Money and Empire, the International Gold Standard, 1890 – 1914* (de Cecco;1974) describes in detail the cost that Britain extracted from those it conquered. Although the period 1870 – 1914 covered by de Cecco (1974) is just prior to the one considered here, his book deals with a number of themes pertinent to this thesis. His chapter on Indian Money shows that, despite the opposition of Raj administrators, when the British government in London needed capital, it took it. Although, by the design of policy, the Indian Gold Reserve "By December 1901, … had amassed £3 447 317 of which £2 439 093 in gold was held in India and £1 008 424 in British government stock" at the "end of the first quarter of 1902 the whole reserve was transferred to London and invested in British government securities" (de Cecco; 1974: 70). This reserve kept interest rates on Consols lower than they otherwise would have been. "In addition, the India Office began to place money from the Gold Standard Reserve at call … with finance houses in the city of London in 1908" (de Cecco; 1974: 71). These monies were lent by banks at 2% and reinvested on the London market at 3%, making 50% on the margin (de Cecco; 1974: 72). Mr. Cole, the then Governor of the Bank of England,

complained to the India Office about this practice, arguing that the monies should be deposited at his bank, where they attracted no interest at all.

On the fiscal side, not only did the Indian economy pay for the occupation of the subcontinent by the British army and administration, but for the entire armies of British occupation everywhere that the British flag flew (de Cecco; 1974: 63). Perhaps "jewel in the crown" was less apt than "Treasury of occupation". Britain had imposed a silver standard on India since 1806 (de Cecco; 1974: 62). When the silver price fell, and the Indian government battled to maintain its obligations to its British civil servants in Pounds Sterling, it made up the shortfall with an increase in the salt tax, the burden of which fell on the Indian poor (de Cecco; 1974: 66).

De Cecco was arguably the economic historian of money most sensitive to a development money/soft money paradigm, as expressed in Table 1 on pages 35 and 36**.** De Cecco was concerned more with the problems of deflation than inflation in 1870 – 1914. Regarding the upward and downward phases of prices, "it is the downward phase, from 1893 – 1896 that matters most," de Cecco said (de Cecco; 1974: 40). These three years were a period of deflation at the end of the period of the long depression or first great depression, which ran from 1873 to 1896 (Kindleberger; 1984: 69).

De Cecco sought to correct the bias in the literature whereby "the study of the development of the international monetary system has been conducted along the lines suggested by the classical model of *international trade* (de Cecco; 1974: 13) (italics mine). He did this by highlighting where Friedrich List is superior to Smith and Ricardo—where a production-focused understanding of money is superior to a trade-focused one. "Friedrich List is the intellectual opposite of Smith and Ricardo. The latter try to establish political economy as an exercise in logic, … of abstractly formulated logical systems. [List] attempts to immerse himself in the reality of economic history and to derive the most important lessons from it" (de Cecco; 1974: 9).

De Cecco also understood that money is a social convention. "Money is simply that which the state declares from time to time to be a good legal discharge of money contracts" (de Cecco; 1974: 39), or as FDR, holding a $10 note, put it to Paul Warburg in 1933, "How do I know that's any good? The fact that I think it is, makes it good" (Rauchway; 2015: 65). In *The*

International Debt Problem in the Interwar Period (1985), de Cecco analysed the Interwar (1919 – 1939) period. He described it as "perhaps the high-noon of politicized international finance" (de Cecco; 1985: 47). The period started with the end of WWI and the Treaty of Versailles. The Allies had incurred huge debts which, once they were totaled up, began to be counted upon as reparations due by Germany, to offset these loans that the allies had incurred to fight the war (de Cecco; 1985: 48).

De Cecco homes in on an episode central to this dissertation. Britain's gold reserves had been depleted whilst those of the USA had grown. And yet London had the experience of handing the world's gold, and finance, and under the gold exchange standard continued to do so.

> We can derive … the superficial conclusion that a high level of cooperation among British and American central bankers rendered the British return to gold (in 1925) possible. … On the contrary, the return to gold can be seen as an important British defeat in the open fight for international financial supremacy American financiers and politicians engaged during and after the First World War (de Cecco; 1985: 50).

Through the unofficial work of Edwin Kemmerer,

> the gold standard was adopted by several Latin American countries. But the really crucial victory was obtained when, upon Kemmerer's advice, the Union of South Africa rejected sterling and adopted the gold standard. … The City was able to impose upon the rest of the country a monetary policy of semi-permanent deflation, which had, already before the war, seriously undermined Britain's status as a first-class international producer and exporter (de Cecco; 1985: 53).

In his treatment of Wall Street lending, de Cecco (1985) explained the explosion of lending through the 1920s as being supply, rather than demand, driven. In terms of a model, the behaviour of Wall Street was more akin to that described by Minsky (1986), where "stability" in a liquid financial market "creates instability" by the extension of loans that are increasingly risky, than that of Moore where loans were "money supply (that) is endogenously both credit driven and demand determined" (Moore; 1989:11). The newly affluent middle class in the US "had recently acquired savings which they had to dispose of. The banks began by selling them war bonds. After those dried out, they offered them foreign bonds" (de Cecco; 1985: 570).

"And the promotion of foreign loans would have been very difficult had the US authorities not actively fostered the return, on the part of a large number of countries, to convertibility under the gold standard" (de Cecco; 1985: 58). Following the pro-cyclical instability that Minsky (1986) described, just as the flood of funds into foreign lending caused the boom, "the conditions which caused the meteoric rise … were the same which caused their sudden and precipitous fall" (de Cecco; 1985:60). "J. M. Keynes and H. D. White were right when they attributed to short term capital movements the role of Chief Villain in the inter-war international monetary play, and tried to exorcise them in the post-war international monetary order they designed" (de Cecco; 1985: 61). Private Finance ran this system in the interwar period; perhaps a state-driven model could work after WWII.

Gopalan Balachandran picked up the themes of de Cecco (1974) in the period of his study, from 1918 to 1939. In his book, *John Bullion's Empire – Britain's Gold problem and India between the Wars* (1996), just as de Cecco (1974) had done before him, Balachandran shows how Indian monetary policy was managed to suit British interests. Reading de Cecco (1974) and Balachandran (1996), both authors stress just how central the flow of gold and related monetary policy issues was for Britain, particularly during the inter-war years. Balachandran also shows that, although the British were not enamoured by the pace of gold accumulation in the United States, they were able to forge common ground with the United States of America by encouraging the American silver producers to export to India, and thereby mitigate London's haemorrhage of gold to her colony. ".. as U.S. Treasury Under-Secretary R.C/ Leffingwell noted, '… Silver is a pretty poor sort of a reserve… (and) it would be the height of stupidity for us to hold our silver while we are letting our gold go'" (Balachandran; 1996:81).

The British Treasury therefore defeated a proposal for a mint in India and India's gold reserves were transferred to London from as early as 1902 and invested in Bank of England gilts. In this way, India paid for the Boer War in the same way that Addis at the Bank of England caused India to pay for "post-war European construction" during the 1920s (Balachandran; 1996:76). India was made to "absorb between £40 million to £60 million of British paper or silver annually" (Balachandran; 1996:30). This inflow helped keep British interest rates down during the depression, a period in which high interest rates would have been particularly damaging to industry. Balachandran benefits from Ally's (1994) scholarship, connecting the pre-1923 ban on the sale of South African gold to India with overall British Imperialist policies (Balachandran; 1996:36).

A further British influence on the monetary policy of India, aimed at strengthening the British economy, was the maintenance of a relatively strong rupee. This had the effect of encouraging imports, the vast majority of which originated from Britain, and discouraging exports. This stimulation of spending (of money which might otherwise have been spent buying gold), and suppression of earnings on exports, weakened India's ability to accumulate gold. That said, in periods such as the 1923-1924 peak harvest season, the inflated rupee provided extra motivation to acquire gold. "Rupee appreciation, by making gold seem cheaper in nominal terms, may have contributed … (to the accumulation of gold) were it not for the general depressed trading conditions" (Balachandran; 1996:120).

Balachandran shows that, despite Britain's return to the Gold Standard in April 1925, Montagu Norman and Charles Addis at the Bank of England opposed stabilising the rupee and supported the managed floating rupee exchange rate that was the status quo. He concludes that, despite support for European stabilisation of currencies, the Bank of England needed the floating rupee so they could use Indian monetary policy to choke off Indian demand for gold should the need arise (Balachandran; 1996:121-122). In keeping with the findings like that of Cain (1985), Balachandran argues that London's financial interests managed to exert an influence on India much longer than British manufacturing interests. Britain controlled Indian monetary policy right up to 1947.

2.3. The Literature on South African monetary and currency policy

Russell Ally's magnum opus, *Gold and Empire – The Bank of England and South Africa's Gold Producers, 1886-1926* (1994), preceded Balachandran's by two years, but is very much in line with both Balachandran and de Cecco on the matter of the centrality of the flow of gold in support of British interests. Ally, like Balachandran, researched thoroughly the motive and vsted interests that drove policy.. With the exception of Keynes's papers in Cambridge and the Barloworld archives in Rivonia, South Africa, Ally (1994) examined all of the applicable primary source archives in Britain and South Africa in order to understand the importance to Britain of controlling South African gold in the period up to 1926.

Ally shows the importance of British financial institutions in the period 1886-1926, "financial institutions which had developed in the city of London over a number of decades: the joint

stock banks, the clearing and merchant banks, the insurance industry, the stock exchange and the commodity markets" (Ally; 1994:11). Up until the 1920s, South African mining companies would deliver their raw bullion to the African Bank, Standard Bank of South Africa, or the National Bank of South Africa, which then arranged weekly shipments of unrefined gold to London, to be sold by N.M. Rothschild and Son "who, both as refiner and bullion broker, dealt with the bulk of South Africa's gold" (Ally; 1994:15).

Ally noted that the absence of a refinery and mint, and the high freight and insurance charges, meant an increased cost of between fourteen and fifteen per cent to South African gold producers, over and above the costs that would apply in the event of gold being refined and minted in South Africa and shipped directly to its final destination (Ally; 1994:75). Pressure built in South Africa after WWI for the establishment of a refinery and mint, and the right to ship gold to whichever shores commanded the highest price (Ally; 1994:80-81). But in Britain, the need to control this gold also increased.

After the war, Britain relied more and more on inducements to South African producers to ship to London, rather than the coercion of the First World War period. The October 1919 "agreement" promised that South African gold producers could sell, via London, and with the necessary British permits, to other parts of the world (Ally; 1994:58-59). At the same time, the Bank of England negotiated heavily with the shipping and insurance companies to make these costs competitive (Ally; 1994:51).

In dealing with the establishment of the SARB, Ally (1994:93-99) showed the lengths to which the Bank of England, and by extension Henry Strakosch and to a lesser extent William Henry Clegg, went to ensure that it would be independent of the South African government. From Ally's extensive research, it is clear that, while the SARB was to be "independent" of the Union government, Norman wanted it to be as dependent as possible on the Bank of England.

Bruce Dalgaard's book *South Africa's impact on Britain's return to gold, 1925* (1981) has a much tighter focus. He was the first academic to write the story of the Kemmerer-Vissering Commission in detail. The major writers on the subject who came after Dalgaard (1981), including Ally (1994) and Balachandran (1996), have acknowledged his findings. Having said this, Dalgaard's treatment of Kemmerer is noticeably uncritical. There are a number of possible explanations for this. One could be that Edwin Kemmerer's son, Dr Donald L.

Kemmerer, was a co-supervisor of Dalgaard's dissertation and assisted him with his research. Another may lie in the fact that Dalgaard did not conduct research in the South African archives. A third could be linguistic: when looking through the files of De Nederlandsche Bank, he specifically asked the archivist to get him only the material in English, as he did not read or speak Dutch.[15]

Dalgaard's over-emphasis on agency, and the playing down of structure, detracts from his work's original contribution.. Having read Dalgaard (1981), one is left with questions about Kemmerer's context; questions that this dissertation attempts to answer. Two are particularly central: How important was Kemmerer's relationship with major financial institutions on Wall Street? And did these relationships induce the State Department to recommend Kemmerer as an expert to foreign governments? Chapter five will deal with these issues.

Rosenberg (1999) offers a much more balanced and critical view. She shows that Kemmerer's "success" in stabilising parts of Latin-America with his monetary policy advice coincided with a lending boom; "as capital dried up, his missions would lose their luster" (Rosenberg; 1999:163). Kemmerer was clearly not an impartial advisor as far as advice on loans was concerned, given that he remained on retainer with the Wall Street firm, Dillon Read. Dalgaard's impression of Kemmerer carefully applying his mind to each problem was one not commonly shared, and Rosenberg notes that a Polish journalist wrote that Kemmerer "applied his ideas from country to country 'as a painter applies a design with a stencil'" (Rosenberg; 1999:192).

Stephen Gelb's *The origins of the South African Reserve Bank, 1914-1920* (1989) is one of the most quoted articles on the subject and with good reason. The article is a well-researched tour de force on the types of money, monetary problems, and related debates in South Africa in the period 1914-1920, paying particular attention to the different segments or fractions of capital in the South African economy. But, on the last page, Gelb states that "while a South African central bank was not a necessary outcome of the monetary difficulties, some form of local credit control was desirable." In this sense, he argues, the Reserve Bank's establishment was

[15]Gerhard Vissering papers, De Nederlandsche Bank Archives, File 23.600 letter from Bruce Dalgaard dated 29 May 1975.

partially "indicative of the strength of 'national" forces'" (Gelb; 1989:65). Subsequent research in British archives has shown this analysis to be faulty.

Bordiss (2013), describes a web of co-operation in England on drafting monetary policy following the Gold Conference in South Africa in October 1919, and up to and beyond the appointment of the first Governor of the South African Reserve Bank. This discussion and consensus-seeking took place between Keynes (in his capacity as an advisor to the British government) and a number of other actors and policy makers: with Blackett at the Treasury, with Strakosch and Norman, with Strakosch and Hull (the first Minister of Finance of the Union government), with Norman and Goodenough (Chairman of Barclays DOC), with Strakosch and Goodenough (at Barclays DOC), and with Strakosch and Smuts.[16] Keynes met with Basil Blackett, First Controller of Finance at the Treasury[17]. Blackett also met with Strakosch to "discuss the problem of the Governor of the new Central Bank of South Africa"[18]. Blackett reported to Keynes that he and Strakosch, "strongly recommend Clegg in place of Harvey and [Strakosch] was evidently anxious that South Africa should if at all possible not go outside of the list of Bank of England officials or choose a man who had not the 'Central Bank mind'."[19] The memorandum which Strakosch presented to Smuts upon his arrival in South Africa in January 1920 was essentially drafted before reaching South Africa.[20] The banking crisis in 1919 might have been national in character, but the opportunity to set up Bank of England-centric central banks in the British empire was a goal of Montagu Norman. The crisis that birthed the SARB was a South African one, the solution was divised in London.

[16] Montagu Norman Papers, Bank of England Archives, File G1/432. Jan Christian Smuts was Prime Minister of the Union of South Africa at the time

[17] Blackett was a member of the Tuesday (discussion) Club with Keynes (Moggridge; 1992: 278). Keynes papers L/ ST/ 148 – 149, Letter from Stakoasch to Keynes 8 December 1919.

[18] Keynes Papers L/20/104, Letter from Blackett to Keynes dated 5 November 1920.

[19] Keynes Papers L/20/104, Letter from Blackett to Keynes dated 5 November 1920.

[20] Smuts Papers, National Archives, Vol 23 (renumbered 207 in the National Archive), number 153.

Had Gelb had access to British archives, or had he been able to read Balachandran (1996) or Ally (1994), both of whom later conducted thorough research in Britain, amongst other places, he may have shared Ally's conclusion that, "even though the call to establish a central bank in South Africa had come from the Gold Conference, it was the Bank of England – through Norman and close allies like Strakosch – which was to play the leading role in the establishment, as well as early functioning, of the South African Reserve Bank" (Ally; 1994:89). Gelb (1989) confused cause and effect. The cause of the establishment of the South African Reserve Bank was neo-imperialism, the effect was national capitalism. This distinction is important.

Brian Kantor's article *The evolution of monetary policy in South Africa* (1971) is a good survey of monetary policy in South Africa from 1920 until the then current date (1971). Unlike Balachandran and Ally, Kantor (1971) does not examine in any depth the motives of the various protagonists of monetary policy, but rather considers the development of South African monetary policy purely in terms of the monetary conditions prevailing in South Africa at the time. Kantor shrewdly comments on Strakosch's select committee on monetary policy in 1920 that "the major issue, whether or not to link the South African pound to sterling or the dollar, was largely ignored by the select committee" (Kantor; 1971:67). This is an important point made by Kantor, prior to the seminal works of Ally and Balachandran, and goes to the heart of the political aspects of monetary policy decisions at the time.

2.4. The literature on Bretton Woods

The history of the Bretton Woods Conference has been well covered. Benn Steil's *The Battle of Bretton Woods* (2013) is an authoritative account of the "Battle". The battle that Steil (2013) describes is one that is most obvious from a mainstream Anglo-American point of view, in which debtors and creditors were on opposing sides. The British proposed a system in which debtors would easily be able to access finance in something akin to an international set of overdraft facilities, with relatively few obstacles to drawing rights, the Americans wanted the creditor, the United States, to have final approval over loans. Steil recounts how Keynes proposed an international monetary system which also focused on endogenously created money in the form of a new international currency, the Banco, that would be sufficient for the volume of trade of the member countries. Access to this finance, in the event of an economic crisis in a member country, would be automatic and within the perimeters of set guidelines,

mindful that emergency loan finance was always obligatory for the debtor, but at the discretion of the creditor (Steil;2013: 143-149, and 163 -174).

White's contrasting position was that the fund should be subscribed by money put up by the members, and not endogenously created, with "at least half of the 'cash' component of each member's initial subscription to the fund's capital stock (to) be in the form of gold" (Steil; 2013: 149). The United States would be the managers of the newly created institutions (which would be domiciled in America), they would decide which loans to grant.

As the transfer of financial power in the world, from Britain to the US, is one of the sub-themes of this dissertation, Steil's (2013) central narrative cannot be ignored. In addition, the research, and presentation, is so thorough, that it is an invaluable source for any scholar on this subject. That said, a weakness of Steil (2013) is its failure to deal sufficiently with the destructive consequences of the Wall Street-friendly austerity policies, which followed the Treaty of Versailles in 1919 and continued thorough the 1920s. Steil (2013) failed to understand Keynes's rejection of the gold standard (Boughton; 2013) and could not account for the antipathy of FDR, Morgenthau, and White towards Wall Street and their favourite policies.

Eric Helleiner's *Forgotten Foundations of Bretton Woods: International Development and the making of the Postwar Order* (2014) and Eric Rauchway's *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace* (2015) are works of scholarship that make the case for the Bretton Woods conference as a battle between the main delegates at the conference, and those Wall Street bankers intent on destroying it. Rauchway (2015) focused on the fact that both Roosevelt and Keynes were, ideologically up against the same opponents. Although the orthodoxy that Keynes fought against was known as 'the Treasury view', the international finance houses of London seemed more practically committed to this orthodoxy than any other sector of the British economy. Roberta Dayer's *Strange Bedfellows: J P Morgan & Co., Whitehall and the Wilson Administration During World War 1* (1976) and William McNeil's *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression* (1986) provide the context prior to Rauchway's (2015) narrative. Both tell of Wall Street bankers' profit motive supporting the private finance-centric monetary orthodoxy, including policies of

austerity, balanced government budgets and commitment to the free international flow of capital in a gold standard system.

Rauchway (2015) describes Keynes and Roosevelt's separate battles against an orthodoxy supported by the international bankers. Both men were trying to develop the policies, monetary and fiscal, needed to end the Great Depression and allow a sustainable defeat of fascism. Roosevelt had to deal with a body politic in a way that Keynes, the intellectual, did not. In an attempt to kill the Bretton Woods agreement "from his desk at Chase [National Bank], [Winthrop] Aldrich insisted that the Fund, especially, must not pass Congress. Wall Street bankers regarded it as the creature of Keynes, who was also 'the author and founder of the New Deal', and especially of their least-favourite policy, 'deficit financing.' Control inflation, balance budgets, and there would be no need for Bretton Woods" (Rauchway 2015: 209) was the mantra of the Wall Street bankers, and the economists like Kemmerer who supported them.

Rauchway (2015) points out that Keynes's first draft of an international monetary proposal was as the British Treasury representative to the Treaty of Versailles in 1919. In it he proposed an endogenous money solution of state finance, to be achieved by floating a new sovereign debt issue in order to pay for reparations and reconstruction (Rauchway; 2015: 10-11). It was initially well received by the Chancellor of the Exchequer, Austen Chamberlain, and the Prime Minister, David Lloyd George, who noted in support of it that the "problem of restoring credit is almost certainly too great for private enterprise alone" (Rauchway 2015:13). Its implementation was stopped by American President Woodrow Wilson, who thought that it was not "feasible from an American point of view" and that "the usual private channels would be able to fund reconstruction" (Rauchway; 2015: 15). Wilson had Thomas Lamont, a partner in J. P. Morgan, write the letter to the British, rejecting Keynes's plan. It insisted that "the usual private channels" would be able to fund reconstruction. This was a position which would ensure that Lamont's bank continued to profit from the economic chaos in Europe. "The great bankers of Wall Street not only had the President's ear, they served as his mouth" (Rauchway; 2015: 15). With Wilson's model being implemented, austerity and the related stripping away of German effective demand created the climate for Adolf Hitler's rise to power.

Helleiner (1994) noted that:

> Bretton Woods negotiators, under American leadership, explicitly opposed a return to the open, liberal international financial order existing before 1931. Indeed, they constructed a decidedly non-liberal financial order in which the use of capital controls was strongly endorsed. As US Treasury Department Secretary Henry Morgenthau told the conference, the goal of the Bretton Woods agreement was to "drive the usurious money lenders from the temple of international finance" (Helleiner; 1994: 4).

In addition to Rauchway (2015), Steil (2013), and Helleiner (2014, 1994); Conway's *The Summit* (2014), written for a more popular audience, conveys with force this battle between private and state finance. An aspect of this achievement comes from his decision to begin a book about Bretton Woods, with the debate over the Treaty of Versailles, which then gives this battle between private and state finance initiatives an energy lacking in Steil (2013). Conway's interviews lead to possible information on the conference, which may have been booked to follow directly after the Bretton Woods conference at the Mount Washington Hotel. "As the (Bretton Woods) delegates … prepared to leave the Mount Washington, they were unaware that the very reason they were being kicked out so quickly was that the hotel was about to play host to a rival conference held by the American Bankers Association (ABA). The main item on the agenda: how to kill the Bretton Woods agreement" (Conway; 2014: 290 – 291).[21] Although it is not the sole focus of Conway's (2014) account, by starting his story with the Treaty of Versailles, and by the ground-breaking discovery of the ABA conference at the Mount Washington Hotel directly after the Bretton Woods conference, Conway places the struggle between a state-led development-focused monetary plan, and an international private-finance one, in its proper context, at centre stage.

The lasting message that comes from the texts on the economics of the inter-war period is that events in one corner of the globe can have profound impacts in another place and another time. As Keynes anticipated in the Economic Consequences of the Peace, the provisions of the treaty

[21] Conway cites the unpublished memoirs of a Canadian Central banker as the source of his information on this ABA conference at the Mount Washington Hotel. Rauchway (2015: 283) pours cold water on this account, "A popular story has it that, in a nice irony, the conference had to leave so the hotel could make ready for the annual meeting of the American Bankers Association. But the ABA's annual meeting was in Chicago that year", citing a report in the *New York Times* of 24 September 1944. But Conway does not claim that it was the annual meeting, just a meeting. Unfortunately, I found no record in Kemmerer's papers of this alleged ABA meeting at the Mount Washington Hotel, and this is clearly a subject for further research.

of Versailles shaped policies and events for decades that followed. Reading the literature discussed above, one is struck by how profoundly interconnected the monetary and banking regimes and practices of the countries of the world were and still are.

2.5. Summary and Conclusion

The task of this thesis, in locating the South African narrative within that of global monetary policy debates, becomes apparent when considering the readings dealt with in this chapter. The extent to which writers have succeeded in this task is the extent to which a local monetary policy analysis adds to the tapestry of world monetary policy knowledge.

The most successful works that have been reviewed above are those that combined detailed, multi-archival research into specific countries' monetary policy issues, and then showed how these related to a global monetary policy narrative.

CHAPTER THREE: METHODOLOGY AND CONTRIBUTION

3.1. Introduction

This chapter consists of two sections. The first deals with the methodology employed in this dissertation, the second with the contribution of this thesis to the general body of knowledge.

3.2. Methodology

The research for this thesis was exclusively focused on the analysis of primary documents in various archives and secondary sources. None of the individuals involved in the events discussed here are still alive, but the extent of the remaining archives has allowed for valuable triangulation of the correspondence in the primary sources.

An example of this triangulation is the treatment of Bruwer and Holloway during the monetary crisis from February 1932 to middle of 1932. By drawing on Bruwer's Papers at the archive at the University of the Free State in Bloemfontein, his private archive on his farm in the Ladismith district, Holloway's Papers at the National Archive in Pretoria, the correspondence between the US Consulate General in Pretoria and the US State Department, and Keynes's Treasury papers, and copies of the *Cape Times* and *Die Burger* from this period, a much more authenticated narrative emerges.

Anne Gilliland and Sue McKemmish in *Building an Infrastructure for Archival Research* (2004) includes the ethics of dealing with subjects who are still alive. As no personal contact with any of the *dramatis personae*, or even their children, was possible, ethical concerns of this thesis are restricted to accurate and complete descriptions of persons and events in an objective fashion.

Amin (1973) and Wallerstein (1979) provide a very useful way of approaching the material of this thesis. The idea of a "core" and the "periphery", in what is essentially a world capitalist economy, is useful to this dissertation, in terms of how research in archives in South Africa relate to those in Britain and the United States. In *The Capitalist World-Economy* (1979), and particularly in chapter 4, *Dependence in an interdependent World: the limited possibilities of transformation within the capitalist world-economy*, Wallerstein notes that "the structure of the world-economy as a single system has come increasingly in recent years to be analysed in

terms of a core-periphery image, an image which has been linked with 'dependence'. … both in the sixteenth century and today the core and the periphery of the world-economy were not two separate 'economies' with two separate 'laws', but one capitalist economic system with different *sectors* performing different functions" (Wallerstein; 1979: 68) (italics his). Wallerstein refines the binary core and periphery developed by Amin (1973; 137-168) by introducing a third category, which some periphery countries could graduate into. He thinks that the transition from periphery to semi-peripheral country is achieved in three ways: by the "strategy of seizing the chance, the strategy of promotion by invitation, and the strategy of self-reliance" (Wallerstein; 1979: 76), and that South Africa "seized the chance" (Wallerstein; 1979: 77).

Without going into an analysis of dependency theory, this structure of a "core" and a "semi-periphery" is particularly applicable to the research done for this thesis, especially that done in the "old core" Britain, the "emerging core" in the United States, and in the "semi-peripheral" South Africa, for the period 1914 – 1950. I hope to construct the narratives of this thesis in a way that does justice to the reality of the relationship in both directions – from the core to the semi-periphery, but also from the semi-periphery to the core.

3.3. Contribution of this dissertation

This dissertation will consider the valuable lessons that can be learned from Afrikaner nationalists and their success in throwing off the yoke of British imperialism in the period 1914-1950, and their attempts escape from the financial power of Whitehall and Threadneedle Street.

Both Bruwer and Holloway devoted considerable energy and enterprise to considering and managing the relationship between South Africa and its previous colonial master, Britain, and a relationship with a potential new world hegemon, the United States of America. Holloway and Bruwer had to achieve a balancing act in these relationships. How much cooperation should there have been with the previous oppressor, once political independence from Britain had been achieved? In the pursuit of their respective national agendas, they were each influenced to varying degrees by the major economic theoreticians and policy makers of their time, including J. M. Keynes and Edwin Kemmerer, who represented very different economic philosophies. Both Bruwer and Holloway played a role on the world stage before and during

the Bretton Woods Conference. The debate over monetary policy and the Gold Standard, characterised by contestation and compromise with British interests over time, were two central issues of contention. Should South Africa have forged an independent monetary policy, and other economic policies, pursuing relationships with countries independent of Britain; or should their close economic ties have dictated a symbiosis in monetary policy? Was development served by breaking the bonds with the investors and institutions of the country that invaded the Boer Republics in 1899, or was cooperation with this hegemon the best tool for development? And how should the monetary policy of the Union government have responded to waning British and the increase in American power? The main thrust of Bruwer's approach was to break the power of Britain over South African policy, in order to achieve sovereign development in his country. Holloway wanted independence to evolve over time. In the interim, he saw cooperation with a relatively powerful Britain, and later the United States, as essential to South Africa's prosperity.

Bruwer thought that, once the National Party-led government was in power, it would be easy to implement policies which advanced the national interest in general, and those of the poor Afrikaans majority electorate in particular. Bruwer assumed on taking office that the British Imperialists who had held such influence over Smuts' government, would now be powerless in the face of the Afrikaner nationalist victory. He assumed that the dreams and aspirations of the Afrikaner poor would now have advocates in power, and a developmental agenda was certain. But this was not to be. Bruwer found a Treasury staffed with British Imperialists, what he called "Milner men".[22] We know from scholarship on the subject (Ally;1994) that the economic victory of the British in the Boer War was total. From the termination of the war in 1902 until 1919, every single ounce of South African-mined gold was sent, unrefined, on British ships, insured by British Insurance Companies, to England, to be refined by the Bank of England and sold by Rothschilds at the "official" price, despite higher prices being on offer in the United States and India. An attempt by one of the mining companies to break this arrangement during the First World War was met with military threats against the company involved. But when Bruwer, brimming with enthusiasm, commenced work as Chairman of the Board of Trade and Industry in October of 1924, he soon discovered that the Treasury was teeming with British imperialists, determined to fight any erosion of Imperial power and

[22]Appointees of Lord Alfred Milner who, after the Boer War, set about trying to achieve a cultural victory over the Afrikaners, equal to the military victory that the British conquering of the Boer Republics had realised.

influence over policy. The new Minister of Finance, N. C. (Klasie) Havenga, despite having credentials as a brave aide to General Hertzog in fighting the British during their invasion of the Boer Republics in 1899 – 1902, followed the advice given by his British Treasury officials, chief amongst them being Edmund Hugh Farrer, "Companion of the Order of St. Michael and St. George, a nephew of Lord Farrer and former member of the Milner kindergarten".[23] To quote Bruwer,

> in other words, the Department of Finance was run through with the spirit of Milnerism. And what is Milnerism? – The back of the Afrikaner must be broken, or as John Buchan (late Lord Tweedsmuir) set out in his book *African Colony*, "when two men ride on a horse, one must needs ride in front – and the British are going to ride in front".[24]

Of course, these are complex issues. In a world in which over 90% of the world's gold was sold on the London market, and only a generation from the invasion that destroyed the Boer Republics, there was a case to be made for close cooperation with the imperial power. Havenga's practice of taking advice from his "Milner men" in the Treasury can be easily justified, given the power that Britain had exerted, and still did, over her ex-Colonies now a Dominion. A question which runs through this dissertation is to what extent should a country focus on national development or, alternatively, how much should it commit to playing a part in an international system? How long does one defer the dream of national development, in order to have peace with the hegemon? These are questions over which Bruwer clashed with Havenga and Holloway, and which would later plague Havenga and Holloway in the aftermath of Bretton Woods.

The tension between history and theory is explored by Maxine Berg in her short article *Why historians and economists should study each other's subjects* (2019), published on the blog of

[23] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Part Three of the unpublished memoirs of Andries Johannes Bruwer entitled "Contact with the Party Political, originally drafted under the title: I accuse Havenga" page 6.

[24] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 5.

The British Academy. Berg describes Economic history as "the study of the historical change of the material world in all its broad manifestations, deploying both deep empirical and archival research and interdisciplinary methodologies and theories" (Berg; 2019).

Berg states that "we need to open a dialogue where both historians and economists seriously read in economic history, and economic historians learn from the theories (plural), techniques and histories of institutions and contexts of their sister subjects" (Berg; 2019). "The pressing issues of financial crisis, inequality and climate change call for a reformulation of current economic models" (Berg; 2019). "Financial crisis, (and) inequality" was something that the protagonists of the period 1914-1950 had to grapple with, and hopefully studying their wrestling with these issues may have some usefulness as we face financial crisis and inequality in our current world.

Timothy Mitchell (2002) shows that it is only through rigorous primary source research that received wisdom can either be verified and accepted or proven false and modified. I have focused on extensive archival research in twenty-two archives in four countries. The primary source archives consulted were:

Benjamin Strong Papers - New York Federal Reserve, New York, USA
Edwin Kemmerer Papers - Seeley Mudd Archive, Princeton University, New Jersey, USA
Harry Dexter White Papers - Seeley Mudd Archive, Princeton University, New Jersey, USA
Treasury Papers and State Department Papers - National Archives, College Park, Maryland, USA
Montagu Norman Papers - Bank of England Archive, London, UK
Keynes's Treasury Papers - National Archive, Kew, London, UK
Dominion Office Papers - National Archive, Kew, London, UK
Churchill Papers - Churchill College, University of Cambridge, Cambridge, UK
Keynes Papers - Kings College, University of Cambridge, Cambridge, UK
Vissering Papers - De Nederlandsche Bank Archive, Amsterdam, The Netherlands

In South Africa, I have worked in the following archives:

Jan Hofmeyr papers - William Cullen Archive, University of the Witwatersrand, Johannesburg

N. C. Havenga Papers - National Archive, Pretoria

B. Hertzog Papers - National Archive, Pretoria

J. E. Holloway Papers - National Archive, Pretoria

Treasury Papers - National Archive, Pretoria

J. C. Smuts papers - National Archive, Pretoria (also accessed on microfilm at African Studies Library, UCT, Cape Town)

Samuel Evans Papers - Barlow World Archive, Rivonia

J. E. Holloway Papers - Archive for Contemporary Affairs, University of the Free State, Bloemfontein

A. J. Bruwer Papers - Archive for Contemporary Affairs, University of the Free State, Bloemfontein

Various newspapers - The National Library, Cape Town

The discovery of the original archives of both Holloway and Bruwer was something like a story from a detective novel. It began with the good fortune of being seated opposite the great-grandson of Holloway at a birthday party many years ago, and subsequently becoming friends. That led to a trip, with Professor Padayachee, in a SUV, to Holloway's farm in Haenertsburg, in Limpopo Province, to examine the private archive there, and to trips to Bloemfontein to the private Holloway archive in the home of his granddaughter. A Google search of "A. J. Bruwer", while poring over the Bruwer/Keynes letters at the National Archive in Kew, London, revealed the name of Bruwer's farm in the Ladismith district, and Professor Padayachee and I undertook another four and a half hour trip in an SUV, opening up Bruwer's as yet unexamined papers, both there and at the University of the Free State. I remain indebted to Bruwer's attorney, who lives in Ladismith, and who remembered that Bruwer had sent most of his papers to the University of the Free State.

The private collections from which research was undertaken are:

Personal papers of J. E. Holloway in a home in Bloemfontein

Personal papers of J. E. Holloway on what was his farm in the district of Haenertsburg, Limpopo Province

Personal papers of A. J. Bruwer on what was his farm, Mymering, in the district of Ladismith, Western Cape Province

The period in South African history covered by this dissertation is one of oppression for black South Africans. The subject of racial and class oppression in South Africa has been covered extensively by Wolpe (1972), Lipton (1985), Terreblanche (2002: 270-271), Feinstein (2005: 11-34), Hart and Padayachee (2013) and others. I do not attempt to make any contribution to that debate here. As far as the two main white South African parties in the period 1914 -1950 are concerned, the South African Party and its members in the United Party, and the National Party and its members in the United Party, it may be useful to consider the dichotomy of oppression as Sampie Terreblanche put it: "While repressive labour measures were institutionalised mainly on behalf of the white employers and the mainly English-speaking capitalist class, discriminatory measures were institutionalised mainly on behalf of the Afrikaner proletariat or working class. While the repressive measures saved costs for capital, the discriminatory measures increased them. … Those who favoured repressive measures mainly supported the SAP and UP, while those who favoured discriminatory measures mainly supported the NP and Labour Party (Terreblanche; 2002: 270).

Needless to say, neither of our two monetary theory protagonists, Holloway nor Bruwer, were advocates of a one-person-one-vote South Africa. Holloway published his defence of Apartheid, *Apartheid: A Challenge* (Holloway; 1960), just less than two years after finishing four years representing Apartheid South Africa in Washington, and then in London. Bruwer made it clear that Afrikaner and English white South Africans should stand together as nationalists, to maintain Africans in their "natural" "subservient" roles (Bruwer; 1934: 231). But neither of their views on race are dealt with here. Plenty of examples exist of their defence of apartheid, but this is a subject for another study. Wallerstein tells us that "The important thing for living men, and for scholars … is to situate the options available in the contemporary situations in terms of the patterns that we can discern in the historical past" (Wallerstein; 1979: 67). In this study, I hope to share the lessons of the Afrikaner nationalists escape from the yoke of British imperialism in the period 1914 -1950, some of which may be valuable for African nationalists today, in the quest for sovereignty, development, and the wellbeing of the majority.

In addition to not giving a full treatment to the views of Holloway and Bruwer regarding the oppression of black South Africans, this thesis has also avoided a full treatment of industrial and tariff policy. Both the Holloway and Bruwer papers contain rich material on industrial policy. Like their views on monetary policy, their positions on industrial policy were also in opposition to each other. My failure to deal fully with these views is not because of a belief

in the supremacy of monetary policy as a tool for industrial development. Far from it. Industrial policy, including tariff policy, is no more central to industrial development than monetary policy. But overall government strategies for development must include monetary policy, albeit in a supportive role.

The author has spent more than a decade specialising in studying the history of monetary policy debates, which naturally lead to the focus of this thesis. The reader should not infer from this that this dissertation argues for monetary policy ahead of fiscal, industrial and tariff policy, but rather that monetary policy needs to play its role, along with the other policies of the state.

This thesis hopes to also contribute to the history of economic thought by adding an important South African component from 1914 – 1950, to the history of monetary theory and policy debates that have raged over the centuries between the sound money and development money thinkers in various geographies, mindful of the contributions detailed above, and the categories set out in table 1 on page 35. I have attempted to show how certain themes run through these debates, how these themes were applicable to the debates involving Bruwer and Holloway in South Africa, from 1914 to 1950.

3.4. Summary and Conclusion

In the period from 1914 to 1950, Afrikaner nationalists struggled to claim independence for South Africa. They had to contend with the erosion of British power and the ascendancy of the United States. In this context, I chose to draw from the archives of those in power or close to it in Britain, the United States, and South Africa, searching out material on the monetary policy debate from 1914 to 1950. This thesis describes the debate in the context of a declining core country, Britain, an emerging core country, the United States, and a South Africa which was shifting from a peripheral to a semi-peripheral role.

CHAPTER FOUR: THEORY ONE: THE INTELLECTUAL FOREFATHERS OF HOLLOWAY AND BRUWER, AND THE LANDSCAPE OF THE DEBATE

4.1. Introduction

There are two theory chapters in this dissertation. This one deals with theory mostly prior to 1914, with those thinkers who influenced the two South African economists, Holloway and Bruwer, who are the main subjects of this thesis. It differs from the next chapter, in that the thinkers dealt with in this chapter predeceased Holloway and Bruwer and therefore did not have direct communication on policy with either of them. The only exception is Irving Fisher, one of the great American neoclassical economic theorists, who had expressed an interest in discussing policy with Holloway. However, there is no evidence of Fisher's work in the Holloway or Bruwer papers, and no evidence that they discussed theory with him.[25]

Chapter 5 will deal with the protagonists of theory from the hegemonic countries of the period 1914 – 1950: Keynes from Britain, and White, Bernstein, and Kemmerer from the United States.

First, I explain the dichotomy of this thesis, between sound money and development money, using the table from Skidelsky (2018:39) as the foundation, and adding three extra categories of my own (see Table 1 on pages 35 and 36).

Once the intellectual antecedents of Holloway and Bruwer have been dealt with, the last section of this chapter suggests the stages of development that a hegemon passes through in its rise to and fall from world power. This is important, because the dominant thinking, in the core countries, was influenced by whether these countries' power was waxing or waning. Keynes was writing in a country that was losing its hegemonic grip, and Kemmerer was most active in a period of American financial ascendency.

[25] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Fisher to Holloway; date unclear, probably November 1932. In it, Fisher expressed the desire to meet Holloway to discuss his indexed dollar ideas. But Holloway and Fisher did not meet in 1932, and there is no further correspondence from Fisher in the various Holloway papers.

4.2. Sound Money/Hard Money School versus Development Money/Soft Money School

As an enthusiast reading the monetary debates of just over the last four centuries, I am often struck by how unaware the audience of these debates are about previous debates and their similarities with the then current ones. After reading about debates at different times, and locations, I was surprised by how similarly the sound money and development money thinkers from difference times and places, approached certain aspects of money. Hence, in this dissertation, the monetary debate is set out as a dichotomy between the "sound money" and "development money" schools.

Arguably the most succinct summary of these two schools of thought can be found at the end of Chapter One of Skidelsky's *Money and Government* (2018: 39). Skidelsky calls these alternatives the "hard" and "soft" money schools; terms that are perfectly interchangeable with those I have used, viz., "sound money" and "development money" respectively. To these distinctions I wish to add three further sources of difference (and have done so in Table 1 below) that is the main *purpose* that these schools ascribe to money, the main *geography* of the operation of this money, and what they tend to *worry about*.

In the category of geography, Davenant and Lowndes argued the development money position about the currency policy on the *national* economy (see pages 41-43). By contrast, the sound money advocate John Locke expressed his concerns for England's *international* reputation should she devalue (see page 43). These concerns of the sound money and development money advocates echoed their way down to Kemmerer and Keynes in the 1920s and 30s. The sound money Kemmerer arguing for an *international* gold standard, and the development money Keynes arguing for what suited *national* production.

As discussed elsewhere, the "sound money" (Skidelsky's hard money) people tend to emphasise trade as the rationale for the existence of money, whereas the development money (Skidelsky's soft money) people tend to focus more on production as the reason for money's existence. Both Keynes and White, while deeply committed to world-wide cooperation and trade, understood from their work in the interwar period that an active national government, pursuing full employment within the country, was central to development.

Table 1: The Mysteries of Money: A Short History

Beliefs of the money schools	The two money schools	
	Hard/Metallist	Soft/Nominalist
Origin of money	Barter	Credit
Nature of money	Commodities	Tokens of credit
Value	Intrinsic/Objective	Political/Social
Theory of money	Exogenous	Endogenous
Use of money	Transactions	Transactions/Store of value
Favours	The creditor	The debtor
Epistemology	Risk	Uncertainty
Primary purpose	Trade	Production
Geography of primary action	Global	National
Worries about	Inflation	Deflation

Source: The first seven rows of Table 1 are derived from Skidelsky (2018: 39), the last three are my own additions.

By way of another example, on the question of whether the monetary policy favoured the *creditors* (the bankers) or the *debtors* (those in production borrowing money), consider Serra and Bandini. Bandini favoured free trade and other policies that suited banks, one of which commissioned a statue of him outside their offices (see page 38). Serra argued for multiple industries which would no doubt borrow money rather than lend it. With very few exceptions, White and Keynes argued for a policy that suits the *debtors* rather than the creditors, and crafted at Bretton Woods and before, a monetary policy which would support national production and full employment, a policy that saw money as an instrument of development. On the other side,

Edwin Kemmerer remained a "sound money" advocate all his life, remaining close to the *creditors*, the captains of Wall Street; and arguing for an international system of free trade, and free-flowing private capital.

4.2.1. Early Economic Thought

In 2017 I visited the oldest continuously operating bank in the world, Banca Monte dei Paschi di Siena. Outside, I found a stone statue of an economist which, the guide explained, had been commissioned by the bank. Knowing who commissioned it, and bearing the above dichotomy in mind, I investigated and found that Sallustio Bandini (19 April 1677 – 8 June 1760) "was an advocate of free trade, and removal of local feudal tariffs and tolls", just as expected, and a complete contrast to Antonio Serra, an economist that the banks of his native Naples did not immortalise in stone.

Antonio Serra's *Short Treatise on the Wealth and Poverty of Nations*, written in jail and published in 1613, offered an alternative explanation to that of Marc' Antonio de Santis, for the dearth of gold reserves in their native Naples. De Santis argued that it was an overvalued currency which caused the holders of promissory notes to redeem them elsewhere, rather than in Naples (Roncaglia; 2016: 305 – 307). An overvalued currency also enabled a colonial power to stimulate imports from the core, and create headwinds for potentially import-substituting industry in the periphery, as the British Raj did to retard industrialisation in India and stimulate it in Britain (Balachandaran;1996). But Serra built on the work of Giovanni Botero, and sought a different explanation. Botero noted that the greater the spread of different professions in a city, the greater its wealth. While acknowledging Botero's insistence on a multi-sector economy, Serra asked "Who will deny that the scale of manufactured products is more certain and more profitable than that of agricultural produce?" (Serra; 1613:12). This, Serra noted, was because agriculture suffered decreasing economies of scale, whereas manufacturing enjoyed increasing economies of scale (Reinert; 2016: 327-328).[26] Serra felt foreign involvement in the economy to be problematic, but not because of its control of the exchange rate. The "income that foreigners receive from their businesses, combined with their income from imported goods

[26]Joseph Schumpeter was sufficiently impressed by Serra to praise his "approach to the development of manufacturing … which is a genuinely scientific one" (Schumpeter; 1912:370-380). Schumpeter credited Serra as "having been the first to compose a scientific treatise, though an unsystematic one, on Economic Principles and Policy" (Schumpeter; 1954:195).

far exceeds any income that could be made from the export of goods" (Serra; 1613: 195). As a remedy, Serra proposed building a domestically owned local industrial sector, a domestic entrepreneurial class, and a skilled labour force (Kregel; 2016: 323). The history of economic thought is littered with the sad repetition of the Bandini and Serra narrative – economists who are favoured and immortalised by internationally mobile capital and the power elite that they support, on the one hand; and, on the other hand, nationally focused economists who face obscurity. We don't know dates of Serra's birth or death.

4.3. Influences of theorists from before 1914 on Andries Bruwer and Jack Holloway's economic thinking

Having sketched out the features of the sound money and development money schools of thought, let us now consider those thinkers who influenced our protagonists, Jack Holloway and Andries Bruwer.

Bruwer, who thought in a paradigm similar to that of Serra, credited Mun, List and Keynes as his main intellectual influences.

Inspired by the protectionism which had allowed American and British industry to develop in their infant stages, Bruwer wrote his Ph.D. thesis, which became the book *Protectionism in South Africa* (1922). He planned similar protection for South Africa when he authored the *Custom Tariff Act* of 1925. In keeping with the spirit of the Tariff Act of 1925, in his 1934 book *Capitalism, Party-Politics and Poverty* Bruwer recommended Thomas Mun's (1664) *England's Treasure by Forraign Trade* (Bruwer; 1934: 9). Although Bruwer did not mention him, Serra's (1613) desire to develop a multi-sector economy, and particularly a manufacturing sector, is strongly present in Bruwer's work.

Mun (1571 - 1641) also made the case for a multi-sector national economy. He argued for a trade surplus; specifically, for a reduction in imports, especially of finished goods. Imports, where needed, should be of raw materials and value addition should be domestic wherever possible. He praised the Netherlands as a powerful economy, at that stage in global history the most powerful in the world, which had started with very few natural resources, and yet built its economy based on trade, plus a multi-sector domestic industry:

> The great Fishing and catching of Herrings is the cheifest trade and principal Gold Mines of the United Provinces, whereby many thousands of Housholds, Families, Handicrafts, Trades and Occupations are set on work, well maintained and prosper, expecially the sailing and navigation, as well within as without these Countreys is kept in great estimation; Moreover many returns of mony, with the encrease of the means, Convoys, Customs and revenues of these Countreys are augmented thereby and prosper, with other words following, as is at large expressed in the said Proclamations, set forth by the States General for the preservation of the said trade of Fishing; without which it is apparent that they cannot long subsist in Soveraignty; for if this foundation perish, the whole building of their wealth and strength both by Sea and Land must fall; for the multitude of their Shipping would suddainly decay, their revenues and customs would become small, their Countreys would be depopulated for want of maintenance, whereby the Excize must fail, and all their other trades to the East Indies or elsewhere must faint. So that the glory and power of these Netherlanders consisteth in this fishing of Herrings, Ling and Cod in His Majesties Seas" (Mun; 1664: Chapter 19)

In the 19th century, the most influential thinker emphasising local manufacturing in a multi-sector economy was the German nationalist economist, Friedrich List (1789 – 1846). Bruwer quotes List in his Foreword to *Capitalism, Party-Politics and Poverty* (1934: ix-x). In *The National System of Political Economy* (1841) (hereinafter *The National System*), List astutely describes economic thinking as:

> that science which teaches how the entire human race may attain prosperity; in opposition to political economy, or that science which limits its teaching to the inquiry how a given nation can obtain (under the existing conditions of the world) prosperity, civilisation, and power, by means of agriculture, industry, and commerce. (List; 1841, Vol II:6)

Unlike Ricardo, List does not see free trade as universally advantageous:

> the result of general free trade would not be a universal republic, but, on the contrary, a universal subjection of the less advanced nations to the supremacy of the predominant manufacturing, commercial, and naval power. (List; 1841 Vol II:14)

List separates economic thinking between those laissez-faire economists who see *free trade* as the engine of improvement and those who see *production* as that engine.

> It is evident that Smith was too exclusively possessed by the cosmopolitical idea of the physiocrats, *'universal freedom of trade*,' and by his own great discovery, 'the division of labour,' to follow up the idea of the importance to a nation of its *powers of production*. (List ;1841, Vol II:14) (italics mine).

The bankers' economists tend to argue for *sound money* in service of *trade*, which is believed to bring prosperity. The national development economists tend to argue that monetary policy, together with other economic policy, should serve *production*. The sound money economists tend to ignore *sectoral analysis*, believing that the free market naturally creates equilibrium between sectors. The national development economists focus on production across sectors, and do not take full employment of the factors of production in each sector for granted. List warned against being fooled into a sense of wellbeing by the presence of money in the bank. "A person may possess wealth, … if, however, he does not possess the power of producing objects of more value than he consumes, he will become poorer" (List; 1841 Vol II:22).

List's magnum opus *The National System* (1841) was written in response to the theory of global laissez-faire which grew out of Adam Smith's work. Throughout *The National System*, and particularly in its theory section, List is critical of what he sees as Smith's over-emphasis on trade, and under-emphasis on production as a strategy for development. List credits Smith with acknowledging some of the importance of productive powers. He quotes from the *Wealth of Nations*, "the increase of wealth depends first on the productive power of labour, namely on the degree of skill, dexterity, and judgement with which the labour of the nation is generally applied" (List; 1841, Vol II: 23), but he goes on to criticise Smith with being too enamoured with "the cosmopolitan idea of … universal freedom of trade … to follow up the idea of the importance to a nation of its power of production" (List; 1841, Vol II: 24). List identifies "productive power" as the driving force of national development, and follows Antonio Serra in stressing the importance of a multi-sector economy.

> The popular school[27], inasmuch as it does not duly consider the nature of the powers of production, and does not take into account the conditions of nations in their aggregate (at the level of macroeconomics), disregards especially the importance of developing in an equal ratio agriculture, manufacturers and commerce, political power and internal wealth, and disregards especially the value of a manufacturing power belonging specially to the nation and fully developed in all its branches (List; 1841, Vol II: 30-31).

List summarises the defects of the global laissez-faire followers of Adam Smith, as it was of Kemmerer in the interwar period:

> The system (of the global laissez-faire) school suffers … from three main defects: firstly, from boundless cosmopolitanism, which neither recognises the principle of nationality, nor takes into consideration the satisfaction of its interests; secondly, from a dead materialism, which everywhere regards chiefly the mere exchangeable value of things without taking into consideration the mental and political, the present and future interests, and the productive powers of the nation; thirdly, from a disorganising particularism and individualism, which, ignoring the nature and character of social labour and the operation of the union of powers in their higher consequences, considers private industry only as it would develop itself under a state of free interchange with … the whole human race … were that race not divided into separate national societies (List; 1841, Vol II: 70).

List goes on to set out five stages of development: "original barbarism, pastoral condition, agricultural condition, agricultural-manufacturing condition, and agricultural-manufacturing-commercial condition" (List; 1841, Vol II: 74), each with a developmental policy appropriate for that stage of development. To pass from the first stage to a pastoral economy, and from this to an agricultural economy, and even

> to the beginnings in manufacture and navigation, is effected most speedily and advantageously by means of free commerce with further advanced towns and countries, but that a perfectly developed manufacturing industry, an important mercantile marine, and foreign trade on a really large scale can only be attained by means of the interposition of the power of the state (List; 1841, Vol II: 74).

[27] List's pejorative for the followers of Adam Smith who enjoyed greater popularity

So much for the progenitors of development money. Now let us consider some of the thinkers that inspired Holloway, the sound money thinkers and a few committed free marketeers. These thinkers include Locke, Hume, Smith, Ricardo and Fisher. It is important to deal with a debate about the value of money in England from 1695 to 1697, just after the founding of the Bank of England, as the rhetorical devices employed and the economic outcomes were similar to those of 1932 in South Africa. At the time, the pound sterling was, as the name suggested, on a silver standard. The measurement of a pound was set in weight of silver content, but the price of silver had appreciated on the Hamburg, and other exchanges, so it became profitable to melt down the coin and export the metal for sale at a substantially higher price than the nominal value of the pound (Martin; 2013: 123), just as was the case in South Africa in 1919. This produced a debate between the philosopher John Locke (1632 – 1704) and Charles Davenant (Graeber; 2011: 340). Locke, "acting as advisor to Sir Isaac Newton, then Warden of the Mint" took a materialist position, assuming that the laws of science should apply to money (Graeber; 2011: 340-341). Locke argued an extreme sound money position in *Some Considerations of the Consequences of the Lowering of Interest, and Raising the Value of Money* (1691) that "any quantity of money … would serve to drive any proportion of trade". This was the famous "money veil" argument, that money was a veil, through which traders saw in order to engage in the underlining barter paradigm for trade.

On the opposing side, in addition to Davenant, was William Lowndes the Treasury Secretary, with a lifetime of service in the Treasury. He proposed that a pound was not a physical quantity of silver, but just a unit of money. The valuation of that unit had got out of equilibrium and, just as in the Middle Ages, when the coin needed to be "cried up" in value to correct this disequilibrium, so too the solution was to reduce the silver content in the pound by 20% (Martin; 2013: 125).

Locke objected. A pound was measured in silver, in the same way that the unit of measurement of distance was a foot (Martin; 2013: 126). What was at stake was that "Locke's real agenda was to argue that money was the private property of citizens and not a creation of government" (Vaughn in Palgrave; Vol 3:230). Locke said that 'to lengthen a foot by dividing it into Fifteen parts, instead of Twelve … (while still) calling them inches" was a scam (Locke; 1695, page 12, quoted in Martin 2013: 127). This same metaphor was used by Holloway in the 1932 gold standard crisis debate of 1932 (see page 252 below).

With Lowndes, and against Locke, stood Charles Davenant, a merchant unusual in not being materialist in his thinking. For Davenant, money was a social convention; in discussing that "credit is simply an extension of human society" Davenant noted that

> no trading nation ever did subsist, and carry on its business by real stock (coins or other hard money); that trust and confidence in each other, are as necessary to link and hold a people together, as obedience, love, friendship … And when experience has taught man how weak he is, depending only on himself, he will be willing to help others, and call upon the assistance of his neighbors, which … must set credit afloat (Graeber; 2011: 330).

In 1695, he argued that Britain should solve the problem of its overvalued currency by moving to a pure credit money system (Graeber; 2011: 340).

Lowndes lost his debate in parliament with Locke, and Britain maintained the silver content in the overvalued pound. The results were as Lowndes predicted:

> In the years immediately following, there was almost no coinage in circulation; prices and wages collapsed; there was hunger and unrest. … the situation only really improved once paper money, and, eventually, smaller-denomination currency, became more widely available (Graeber; 2011: 341)

This "fixed weight" argument of John Locke, that was so disastrous to the English economy after 1695, was used persistently by Kemmerer throughout his career**.** Holloway was more flexible in his thinking. Having learnt from his mistakes in insisting on Locke's physical measurement argument for the gold standard in 1932 (see pages 233 - 234), he changed his mind in time for the Bretton Woods negotiations (see pages 284 - 289).

The next authority that Holloway relied on in his arguments in the interwar period, was David Hume (1711 -1776)[28]. Hume, like his friend Adam Smith, was trying to counter the influence of the Mercantilists, who were the dominant school of thought prior to his period. His work on money, in which he criticised the Mercantilist obsession with preventing a drain of specie out of the country, was entitled *Of the balance of trade* (1752). Hume started his exposition of the price specie flow mechanism with a thought experiment,

> Suppose four-fifths of all money in Great Britain to be annihilated in one night … what would be the consequence? Must not the price of all labour and commodities sink in proportion, and every thing be sold … cheap? What nation could then dispute with us in any foreign market … ? In how little time, therefore, must this bring back the money which we had lost and raise us to the level of all the neighbouring nations? (Hume; 1752: 2).

This was Hume's equilibrium argument for an international gold standard. If there was a drain of gold from England, "The sinking of the prices of all commodities would immediately replace it, by giving England the advantage in its commence with the neighbouring kingdoms" (Hume; 1752: 7). Kemmerer relies on this equilibrating mechanism in his writings as late as 1934 (Kemmerer; 1934:113). Like Locke, Hume was not concerned with too little gold in a country, but, like the Mercantilists and List, he correctly realised that industry is ultimately important to wealth. Worrying about the level of gold, he said that it

> seems to me, … a groundless apprehension, and I should as soon dread, that all our springs and rivers should be exhausted, as that money should abandon a kingdom *where there are people and industry.* Let us carefully preserve these latter advantages; and we need never be apprehensive of losing the former (Hume 1952:1). (italics mine)

As Blaug commented, "the ultimate concern of the mercantilists was the creation of effective factors of production. Not 10% of English mercantilist literature are devoted to the ill-fated doctrine of the balance of trade" (Blaug; 1985: 12). Allen agrees **(**Mercantilism) "was intended

[28] Although Holloway does not specifically refer to Hume, his arguments in favour of international equilibrium via the price mechanism is the argument set out by Hume in 1752, and known as the price specie flow mechanism widely credited developed by Hume.

to promote production and commerce of private entrepreneurs who benefitted from and contributed to the consolidation, prosperity and power of nation states with foreign trade being the most strategic variable" (William Allen in Palgrave; Vol 3; 1987: 445). Hume and the Mercantilist disagreed less than was initially suggested.

The next sound-money thinker who made contributions to the various categories set out in Table 1 was Adam Smith (1723 -1790). In the *Wealth of Nations* (1776), Smith developed his theory that the money evolved to solve the inconvenience of barter (Smith; 1776, Book 1, Chapter IV).[29] He did much to advance the idea of the primary purpose of money being to facilitate trade. Smith was against the imposition of tariffs, "If the wines of France are better and cheaper than those of Portugal, or the linens than that of Germany, it would be more advantageous for Great Britain to purchase both the wine and the foreign linen which it had occasion for of France, than of Portugal and Germany (Smith; 1776, Book IV, page 303). After all, "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer." (Smith; 1776, *Wealth of Nations* Book IV Chapter 8, page 376). In *On the Principles of Political Economy and Taxation* (1817), David Ricardo advanced Smith's (1776) arguments in favour of free trade, and was one of the leading proponents of the restoration of the gold standard in Britain. Ricardo (1772 – 1823) said that:

> Under a system of perfectly free commerce each country naturally devotes its capital and labour to such employments as are most beneficial to each. … It is this principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England (de Cecco; 1974: 3 quoting the Collected Works of David Ricardo, ed Sraffa; 1955 Vol I, page 133).

De Cecco notes that one of Ricardo's implicit assumptions is the absence of returns to scale consierations which Serra had stumbled upon in 1613. Ricardo repeats the Price Specie Flow

[29]Despite the fact that this account of the origin of money is still taught in many Economics Departments today, Graeber (2011; 211-250) shows that systems of account, or credit systems, predated the widespread use of credit by centuries.

Mechanism arguments of Hume, "who expresses complete faith in the international price mechanism" (de Cecco; 1974: 7).

The economist who developed the quantity theory of money, on which Kemmerer worked, was Irving Fisher (1867 – 1947). Keynes, in the *Treatise* (1930), compares the relative merits of the "Cambridge" and the "Fisher" quantity theories, and acknowledges that Kemmerer was instrumental in developing Fisher's quantity theory equation (Keynes; 1930, Vol I, page 233). Fisher is venerated by sound money thinkers. Milton Friedman praised him as the greatest economist that the United States had produced (Friedman; 1994). Much of this deserved veneration from sound money economists is a result of his exposition of the quantity theory, as set out in his *The Purchasing Power of Money* (1911). But, unlike Kemmerer (1934), who was still obsessed with inflation in the worse deflationary environment, Fisher shared with Keynes an impressive flexibility in thought. This flexibility is most noteworthy, for this dissertation, in his exposition of an idea which Holloway separately developed, first with much contradictory confusion in 1932 (see pages 233 - 234), and then more coherently in June 1944 (see pages 284 - 289), after Bruwer had set them out in February of the same year (see pages 267 - 271). According to Kemmerer, "Fisher formulated a commodity dollar plan independently in 1911 and he, more than anyone else, is responsible for the subsequent development of the plan and for arousing public interest in it" (Kemmerer; 1934: 136). Fisher's "plan" was more fully developed in his book *Stabilizing the Dollar* (1920). In the relatively prosperous year of 1920, Fisher was already sensitive to the evils of a deflationary environment:

> During a period of falling prices, when the vampire is not the profit-taker but the creditor, … the stipulated interest he exacts grows into an intolerable burden and bankrupts the debtor. A special injury to business comes when the creditor forecloses his mortgage on industry and undertakes to run it himself. … He lacks the temperament and training to be a captain of industry (Fisher; 1920:77).

But as a result of the fall in prices, and no profits, he is forced to take control, and hence

> the management drifts into the wrong hands, turns into mismanagement, and the bondholder is hoist with his own petard. Like Shylock … he has been exacting his

> pound of flesh until he has over-reached himself. … It ain't a bad idea to be willin' to let the other feller make a dollar once 'n a while (Fisher; 1920: 77)

Having described the problems with deflation, Fisher provides "The Remedy" in Chapter 4. He argues against the position taken by John Locke in 1695, by Kemmerer throughout his career, and by Holloway in 1932, which used Locke's foot-as-a-measurement-of-length analogy. As mentioned elsewhere in this thesis, "The gold dollar is now fixed in weight and therefore variable in purchasing power. What we need is a gold dollar fixed in purchasing power and *therefore variable in weight*" (Fisher; 1920: 90) (italics his). Fisher proposes to link the value of the dollar in a gold standard, to that amount that would purchase a typical basket of essential consumer items, basically a CPI linked value. How was a gold standard to be maintained under his system, Fisher asks? "In brief the answer is: *by varying, suitably, the weight of the gold dollar"* (Fisher; 1920: 90). Under this system, gold coins would not be able to be a central purchasing medium (Fisher; 1920: 91-93).

Fisher displayed another feat of flexible thinking that could earn him a place amongst the development money thinkers. In *The Debt-deflation theory of Great Depressions* (1933), he hypothesizes that the destabilizing effect of debt leveraging in a boom, and deleveraging in a recession, affects investment decision-making, and its feedback into prices caused by the endogenous increase or decrease in money supply. As debt deflation follows a fall in asset prices, money supply shrinks, and this causes a further fall in asset prices, leading to further repayment of debt, feeding back into yet lower asset prices. Fisher's (1933) article has been an inspiration to post-Keynesian economists, such as Hyman P Minsky (1975) and Steve Keen (2000; 83 – 110), as well as to Richard Koo's "Balance Sheet Recession" analysis of the Japanese economy post-1990 (Koo; 2001). These writers have developed Fisher's idea about the debt deflation feedback loop caused by shrinking money supply into their own models.

One year later Holloway (1932) expressed a similar idea to that fully developed by Fisher, but without acknowledging Fisher's contribution in any way, suggesting that he may have been unaware that Fisher had done the pioneering work. As we have seen, the sound money thinkers discussed in this chapter focused on a theoretical model, which they believed should operate in order for equilibrium to be achieved. But the worlds of theory and of economic reality did not always match. The development money thinkers dealt with in this chapter invariably noticed this disconnection between sound money laissez-faire thinking and the actual situation

in the real economy, and attempted to suggest policy which would support production and development of the real economy. The next chapter deals with the theory developed by Keynes, and to a lesser extent by White and Bernstein, as well as by Kemmerer, economists with whom either Holloway or Bruwer interacted.

4.4. The stages of development in which the monetary debate played out

As Karl Marx noted (Marx; 1859: 11-12), the dominant mode of production provides the framework for the dominant philosophical approach in each era. The period 1914-1950 marks a shift in the dominant patterns of monetary economic thought, both in the declining British superpower and in the emerging American one. Holloway and Bruwer were not operating in a vacuum, and it is instructive to consider the political geography in which they found themselves, and the stage of economic development in which their countries were at the time. These stages are really applicable to what Wallerstein (1979) called "core countries", that is those at the centre of the world economic system.

The first stage that I want to consider is that which involves the birth of a hegemon. This process invariably starts through dominance of key, high profit sectors of production. In the 19th century, an emerging hegemon in Britain had "industrial production, which had grown at an annual rate of about 4% in the period 1820-1840 and about 3% between 1840 and 1870, then became more sluggish; between 1875 and 1894 it grew at just over 1.5% annually, a lower rate than that of the country's chief rivals" (Kennedy; 1988: 293). Kennedy (1988: 253) argues that steel and iron production was a key indicator of the strength of the real economy. The history of growth in steel and iron production in the three leading industrial countries, between 1890 and 1938, paints a graphic picture of the relative state of the real economy in these three competitors.

Table 2: Iron/ Steel Production of the Powers, 1890 – 1938 (Millions of Tons; Pig-Iron Production for 1890, Steel Thereafter)

	1890	1900	1910	1913	1920	1930	1938
United States	9.3	10.3	26.5	31.8	42.3	41.3	28.8
Britain	8	5	6.5	7.7	9.2	7.4	10.5
Germany	4.1	6.3	13.6	17.6	7.6	11.3	23.2

Source: Kennedy (1988: 257)

Dominance in steel and iron production often resulted in a surplus of exports over imports, leading to a natural build-up of gold reserves.

In the second stage, a financial centre comes into being. Flush with the funds from the build-up of monetary reserves (including gold), the emerging hegemon rapidly develops a substantial private banking sector and central bank, whose credibility is built on the country's real-economy dominance.

This banking system, and related financial institutions, becomes the largest in the world and, with government and central bank working together, the new hegemon assumes the leadership of the world's reserve currency and related monetary clearance system. In order to justify its leadership, leading monetary economic voices in the hegemon country extol the virtues of an international laissez-faire free trade economy and related international gold standard, along the lines proposed by David Hume in his price specie flow mechanism. They do so because a free flow of gold internationally would result in an inflow in their country. Because the real economy is still a world leader, and has outgrown the need for nurturing with tariff protection, and other support from the state, the calls for the international free movement of capital, goods, and even labour, initiated by the "sound money" thinkers, go largely unopposed by farmers, miners, and manufacturers. It is instructive that most of the opposition to the gold standard and related sound-money policies in Britain took place between 1797, when the gold standard was suspended during the Napoleonic Wars, and the decade after the Bank Act of 1844, which

consolidated the power of the Bank of England (Fetter; 1965). After that, Britain's leadership of the world's real economy was undisputed until near the end of the 19th century.

But dominance of cutting-edge production and sought-after products is difficult to maintain indefinitely, and eventually rivals compete to dominate manufacturing of the most sought-after products. As the older hegemon loses competitive advantage in the real sectors, dominance of the financial sector is all that is left. In the period from 1870 to 1913, while Britain's industrial production grew at 2.1% per annum, Germany's grew by 4.1% per annum and that of the USA by 4.7% per annum (Hirai; 2008:9). Not only were Germany and the USA growing faster than Britain in this period, but new industries which commanded better terms of trade were being developed by Britain's economic rivals. Steel production, using new techniques, shot ahead in the USA and Germany, and Germany in particular outpaced Britain in its chemical industry, despite "the basic research which provided the foundations for this industry" being done in Britain (Hirai; 2008:10).

In the third stage, as British industry went into relative decline, British finance assumed a more powerful place in the British body politic. After 1870, when British governments wanted economic advice, "they went instinctively to the City rather than to Manchester or Birmingham" (Cain; 1985:16). The "feeling in Birmingham and some other manufacturing areas (was) that the interests of production were being sacrificed to the interests of high finance, and … that the political safety of the country was endangered by tying its economic life to the vagaries of foreign developments" (Fetter; 1965:237). De Cecco (1974) shows that the reality of Britain leading the international monetary system in the period 1890-1914 was starkly different from what the orthodox theory suggests. The practical reality involved urging the cooperation of lesser nations, through coercion if necessary. David Hume (1752) proposed that money would flow internationally, as part of an inevitable equilibrating mechanism. Contrary to the automatically equilibrating mechanism that Hume described, holding the keys to the world's banking vaults conferred a considerable opportunity to manipulate the system, and prevent this supposed "natural" flow of capital from leaving. As Eichengreen (2011) shows, this was a part of the "exorbitant privilege"[30] of printing the world's reserve currency,

[30]A term used by Valery Giscard d'Estaing, then Finance Minister in President Charles de Gaulle's government in the 1960s (Eichengreen; 2011: 4) to describe the unfair advantage that the United States held as a result of printing the world's reserve currency. *Exorbitant Privilege* (2011) is the title of an excellent book by Barry Eichengreen on the dominance of the dollar as the world's reserve currency. While most of world trade was

persisting in the absence of a viable alternative, and was exercised by the Americans, once they had established themselves, undisputed, in this role after Bretton Woods and WWII.

J.A. Hobson's theory, published in his book *Imperialism* in 1902, postulated that under-consumption in Britain, which accompanied the accumulation of capital, produced surplus capital, and it was this surplus capital which was the "driving force behind British imperialism in the late nineteenth and early twentieth century" (Cain; 1985:1).

I am not convinced that it was surplus capital in search of investment in a politically friendly environment which was the cause of all imperialist wars, particularly the Boer War. It could have been the opportunity for control of, for example, the gold mined in the Transvaal, which was the stronger motive, as de Cecco (1974) suggests. What is clear is that Hobson draws a causal link between British capital and British imperialism which is important in order to understand the motives and feelings of Afrikaner nationalists during the period 1914-1950. E. Hobsbawm asserts that "whatever the ideology, the motive for the Boer war was gold" (citied in I. Smith, *The Origins of the South African War,* and quoted in Ally; 1994: 24). Holloway's bitterness at the Randlords for participating in the invasion of the Boer Republics is evident in his foreword to the Anglo-American publication *Optima* in 1970. In it, he describes a time when "the mining houses were regarded as enemies of the Afrikaners", and Ernst Oppenheimer as "unlike the Randlords who preceded him he was inward looking, and not attracted by the glitter of London and by the desire to play a role in British society". Oppenheimer, Holloway said, was "the beginning of the end of absentee Uitlander Randlordism".[31] The fact was that Oppenheimer operated in a different geopolitical world to that of "the randlords who preceded him".

Bruwer, in his typically more direct style, summed it up perfectly:

conducted in Pound Sterling, there is a difference between the pound at the end of the 19th century and the dollar after WWII. After WWII, The US could run persistent trade deficits because the whole world needs dollars to trade. The effect of trade deficits on Britain at the end of the 19th century Britain was an outflow of gold, not an outflow of paper, making the maintance of the gold standard rely heavily on cooperation with other central banks (see Eichengreen 1992 and Kindleberger 1984).

[31]J. E. Holloway private papers, Private Bloemfontein Collection. Article for *Optima* 1970 by Holloway, page 146.

> The war of 1899 to 1902 was waged against the South African Republic for the gold of the Transvaal, and had nothing to do with the voting rights of a bunch of international fortune seekers, or with anything else of a human nature. For an international gold market like London to receive millions of pounds of gold every month like clockwork into the vaults of the Bank of England, meant ten times more than the imported gold, as far as the creation of credit was concerned.[32]

J.J. Van Helten (1982) disagrees, claiming that

> The Bank could, in any event obtain gold more rapidly and in greater quantities by raising the Bank Rate and by using the gold devices; relying on gold from South Africa to augment the reserves was a lengthy and time-consuming affair … it is therefore questionable whether, during the 1890s, the British government was motivated in its dealings with the Kruger regime by a desire to release the gold mines from the very considerable burdens and limitations imposed upon them by the Pretoria administration (Van Helten; 1982).

But Van Helten's confidence in the smooth functioning of the global laissez-faire London gold market, independent of Britain's imperialist power, is not shared by de Cecco (1974). De Cecco shows just how fine, and delicate, a balance the London gold and credit markets had become, and how important it was to secure Transvaal gold, if need be through the barrel of a gun.

Cain (1985) refines Hobson's theory by pointing out the difference between industrial capital and financial capital, and by showing the close relationship between the financial capital controlled by the "City of London" and the imperialism carried out by the British government, seated in the same city. It was the owners of this financial capital in search of a home who collaborated with the imperialists in government, while the owners of industrial capital employed in Birmingham or Manchester remained relatively unheard.

[32] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My Participation in politics page 145.

In the final (fourth) stage one sees the emergence of the new hegemon, and the fall of the old one, the seat of world finance shifts from one financial centre to another. In this stage, the rise of a new hegemon which has already secured for itself the dominance of the real economy, and has developed a substantial financial centre, now uses that dominance to shift the centre of world finance to its shores. Once this was achieved, the previous hegemon lost its financial dominance and was confined to a permanently lower economic status. The period 1914 – 1950 finds Britain desperately clinging to stage 3 in the interwar period, and finally losing that battle, slipping into Stage 4 during WWII and after, as Britain was forced into the 'lend lease' agreement with the USA. The United States established itself firmly in Stage 2, as the printer of the world's reserve currency, and as the centre of world finance, in fits and starts, during the period 1914 – 1929,but it leaves WWII as the undisputed leader in both these fields.

De Cecco summarises the situation described above:

> If we look at the chain of events which led to the British return to the gold standard (in 1925), we can derive from it the superficial conclusion that a high level of cooperation among British and American central bankers rendered the British return to gold possible. On the contrary, the return to gold can be seen as an important British defeat in the open fight for international financial supremacy that American financiers and politicians engaged in during and after the First World War (de Cecco; 1985: 50).

4.5. Summary and Conclusion

In this chapter, the major thinkers that influenced Holloway and Bruwer were set out. This excludes the development money thinkers who dominated Bretton Woods: Keynes, White and Bernstein. It also excluded one of the greatest sound money advocates of their era, Edwin Kemmerer, who was known personally by both Holloway and Bruwer. Keynes, White, Bernstein and Kemmerer are dealt with in the second theory section, Chapter Five.

One of the great quests of history is to place people in context. Antonio Serra (imprisoned in 1613) and his fellow Neapolitans were concerned to understand the causes of under-development in Naples, so as to consider what could be done for it to become more prosperous. Thomas Mun (1571 – 1641) was a director of the East India Company, in England, and a great proponent of cooperation between a strong state and strong manufacturing and commercial

interests. England in his time was by no means at the height of her economic power and, across the English Channel, the United Provinces of the Netherlands was a serious commercial rival. By the time that John Locke (1632 – 1704) had his debates with Charles Davenant and William Lowndes in 1695, England was beginning to feel more confident, so that laissez-faire ideas began to have more purchase. By the Acts of Union, passed in the parliaments of Scotland and England in 1706 and 1707 respectively, Great Britain was created. Hume and Smith found themselves a part of both the fertile soil that produced the Scottish enlightenment, and a part of the premier nation in ascendency, Great Britain. "In the period between 1660 and 1815 it was a maritime nation, Great Britain, rather than these continental giants, which made the most decisive advances, finally dislodging France from its position as the greatest of the powers" (Kennedy; 1988: 123). Given that they lived in a country of growing economic advancement, it is not surprising that Hume and Smith took an expansive approach to economic geography.

If Britain's dominance of the economic sphere was nascent in the time of Hume and Smith, by the time Ricardo (1772 – 1823) was writing, its economic advantage was unquestionable. The British industrial revolution was yet to run its full course, but a Briton like Ricardo could speak with ease about promoting global free trade, secure in the knowledge that his country was on the cutting edge of economic innovation.

What was true in this respect for Ricardo in Britain in the early 19th century, was equally true for Fisher (1867 – 1947) in the US. Living in a country which enjoyed dominance in cutting-edge economic technology was not something Friedrich List (1789 – 1846) experienced. Born in an area that would later become Germany, and emigrating to the US in 1825, List lived in countries where infant industry arguments for protection were easy to make. List witnessed the growing industry that Alexander Hamilton's policies had facilitated in the US, and the power of a railway system to unite a country. List sought to introduce these innovations into his native land.

Geographical location at a point in time in history, played a role in Keynes's thinking, and that of Kemmerer. White and Bernstein saw a Wall Street-dominated US from a different angle. All of them, and all of the thinkers in this chapter, were products of their time and place in history, as will be discussed in the next chapter.

CHAPTER FIVE: THE GLOBAL BATTLE OF IDEAS: THE DEVELOPMENT MONEY OF KEYNES, WHITE AND BERNSTEIN, AND THE SOUND MONEY OF KEMMERER: FROM 1914 TO 1946

5.1. Introduction

In this chapter I will consider two groups of thinkers who influenced Holloway and Bruwer, in the period 1914 -1950. The development money camp is represented mainly by the ideas of John Maynard Keynes, who was the British chief negotiator at Bretton Woods, but also by Harry Dexter White and Eddie Bernstein, the American chief negotiator and his deputy respectively. Opposing them was Edwin Kemmerer, who represents the sound money position, of which he was a life-long advocate (Helleiner; 2014) (Rauchway; 2015). Bruwer corresponded twice with Keynes, once in 1932 and again in February 1944, and referenced him liberally in his work. Both Holloway and Bruwer appeared before Kemmerer at the Kemmerer Vissering Commission and Holloway stayed at his home in Princeton in 1932. Holloway's papers are full of articles by Kemmerer.

5.2. Development money theorists – Keynes, White and Bernstein

5.2.1. John Maynard Keynes

5.2.1.1. Keynes's World

John Maynard Keynes was born into a family of intellectual aristocracy, his father being an academic at Cambridge and his mother the first female mayor of Cambridge. Born in 1883, Keynes "loved life and sailed through it buoyant, at ease, and consummately successful", studying at Eton and then Cambridge, advising government, and then teaching at Cambridge (Heilbroner; 1986: 25). Unlike Kemmerer, whose background is dealt with later, Keynes's predisposition was to reject the marginal utility mechanism developed by Neo-classical economists, including Marshall and Pigou. This followed his rejection of the utilitarianism developed by the English philosopher, Jeremy Bentham. Based on the agency of the individual, Bentham's hedonic calculus can be seen as the building block on which the calculation of marginal utility was based.

In one sense, Keynes was the typical insider, educated at Eton and Cambridge, director of a major insurance company, a famous Cambridge don, editor of the *Economic Journal* for 33

years, and a key economic advisor to the British government (Skidelsky; 1983 and 1992). But equally, and perhaps more so, Keynes was the outsider.

> To ignore major elements of Keynes's private life, …, as does his first major biographer, Roy Harrod - particularly Keynes's homosexuality, despite its featuring in nearly two decades of passionate and poignant personal correspondence from the early 1900s - is to underplay the importance of Keynes's associations outside official college and government circles, in particular with members of the Cambridge "Apostles" male secret society and the iconoclastic Bloomsbury group of London intellectuals and aesthetes. Keynes would famously write of the Apostles "We were....in the strict sense of the term, immoralists," by which he meant willing to break with conventions in pursuit of worthy public motives. Keynes's personal attachments had an undeniable impact on his ethical worldview and the sharp-edged rhetorical habits he practiced in official settings (Steil; 2013:63).

Amongst Keynes's most intimate relationships were those that he had in the Bloomsbury Group, the writers and artists who included Virginia and Leonard Woolf, Lytton Strachey, Clive and Vanessa Bell, E.M Forster and his long-term lover Duncan Grant. By and large, they were critics of capitalism and Victorian morality, and promoters of sexual liberation and 'polyfidelity'.

Keynes's sexual orientation provided a cause for his identification with outsiders. He was homosexual for the first part of his life, with his lover, the painter Duncan Grant, set to inherit a large chunk of his substantial estate. He later married the ballerina, Lydia Lopokova and, by all accounts, had a successful heterosexual marriage during the second period (Skidelsky; 1983 and 1992). Robert Skidelsky comments that "no one who has read Keynes's correspondence with Lytton Strachey or Duncan Grant can doubt that homosexuality for him was not just a sexual preference, but part of the good life as he then defined it" (Skidelsky; 1983: xvii).

In this dissertation, questions about the homosexuality of Keynes and the probable homosexuality of Henry Strakosch, of Strakosch's friend and business associate, Brendan Bracken (the personal and political confidant of Winston Churchill), and of Gerhard Vissering, are raised, not because they are ubiquitously important, but sexuality may sometimes be significant in understanding the way that Keynes attempted to influence ideas and policy in

shaping the world of his time. Previous academics' failure to deal with the homosexuality of their subjects is often less because of a carefully thought-through position that the subject's sexual orientation was unimportant, and more because of the biographers' discomfort with this subject, even half a century after the Stonewall Riots. A case in point is Anand Chandavarkar (1989: 171), who deals sensitively and intelligently with issues of racism and anti-Semitism, but is uncomfortable with Skidelsky's description of John Maynard Keynes's relationship with the male Indian student, Bimla Sarkar.

Regarding his love life, Skidelsky notes that "Keynes never shared his [Sebastian Sprott, Keynes's last male love] taste for the low life. He refused to idolize the working class, British or German. He worshipped artists, not toughs. His ideal universe never included working class 'mates' – something which distanced him from those who approached their socialism by this route" (Skidelsky; 1992: 36) (parenthetical information on Sprott mine). It is therefore easy to see how John Maynard Keynes's sexual attraction for artists rather than "toughs" led him to align politically with the Liberal Party, rather than making the transition to the Labour Party (see Keynes *Am I a Liberal* (1925), *Essays in Persuasion*).

Keynes's sexuality was to his outlook what Veblen's immigrant background was to his. Thorstein Veblen was, after Karl Marx, one of the most important critics of mainstream economics, challenging basic assumptions of Marshall's Laws of Demand, such as the downward sloping demand curve. Buchholz (1989; 177 – 178) notes that

> commentators almost always link Veblen's critical attitude to his family's impoverished immigrant status. … The pariah theory argues that Veblen's outsider status gave him a unique and unbiased view of American economic life. He could see the cracks in the foundation of Capitalism because his eyes pierced through the façade. Veblen himself employed a similar hypothesis in his essay 'The Intellectual Pre-Eminence of Jews in Modern Europe'.

Chandavarkar (2009), Paulovicova (2007), Skidelsky (1992) and others have noted that Keynes enjoyed being provocative and shocking in his speech. "Words ought to be a little wild, for they are the assault of thought on the unthinking" (Keynes; 1933).

But Keynes did evolve over his lifetime. There is no evidence that he was ever unfaithful to Lydia after their marriage in 1925. Keynes's investment strategy shifted after the stock market crash of 1929. By 1932, Keynes has moved from speculation to a policy of buying shares to hold them for the long term. This investment fidelity got a mention in the *General Theory*, "The Spectacle of modern investment markets has sometimes moved me towards the conclusion that to make the purchase of an investment permanent and indissoluble, like marriage, except by reason of death or other grave cause, might be a useful remedy for our contemporary evils" (Keynes; 1936:160). In *My Early Beliefs* (1949) Keynes responded to criticism from D H Lawrence that his group "lacked reverence, as Lawrence observed and as Ludwig (Wittgenstein) with justice also used to say – for everything and everyone" (Keynes; 1949: 99)[33]. Keynes's admission of the weakness of his early beliefs, and his desire "to return to some of the most sure and certain principles of religion and traditional virtue" (Keynes; 1930, *Economics Possibilities of our Grandchildren* printed in *Essays in Persuasion*) suggested that the mature Keynes was different from the youthful one.

5.2.1.2. Keynes the supporter of British-run global laissez-faire in its heyday

Looking back, Keynes described the British-run global laissez-faire life at its apex in the era before WWI:

> The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole world, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighbouring office of a bank for the supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters … and would consider himself greatly aggrieved and much surprised at the least interference. But

[33] Keynes died in 1946, but this work was published posthumously in 1949.

> most important of all, he regarded this state of affairs as normal, certain, and permanent" (Keynes; 1920:11-12).

In 1933, having substantially "changed the orientation" of his mind, Keynes reflected on his previous acceptance of the laissez-faire orthodoxy:

> I was brought up, like most Englishmen, to respect free trade not only as an economic doctrine which a rational and instructed person could not doubt, but almost as a part of the moral law. I regarded ordinary departures from it as being at the same time an imbecility and an outrage. I thought England's unshakable free trade convictions, maintained for nearly a hundred years, to be both the explanation before man and the justification before Heaven of her economic supremacy. As lately as 1923 I was writing that free trade was based on fundamental "truths" which, stated with their due qualifications, no one can dispute who is capable of understanding the meaning of the words (Keynes; 1933: 755).

It was the apparent pre-WWI smooth efficiency of the world economic system in his lifetime, viewed from Keynes's England, that prevented him from spending much energy considering alternatives. The various economic crises of the inter-war period jolted Keynes out of this orthodox mindset. The "orientation of my mind is changed" (Keynes; 1933: 755) he admitted. And the world of thought was richer for his change of orientation.

5.2.1.3. Keynes's New Thinking on Prices, the Interest rate and Banking 1920 - 1937

"The history of the Keynesian revolution is largely a story of Keynes's escape from the quantity theory of money" (Skidelsky; 1983: 214). This quantity theory was intimately connected to Hume's price specie flow mechanism, the Ricardian relative advantage model favouring free trade in an unregulated global laissez-faire system, and the gold standard providing the sound money basis upon which the system relied.

A good summary of Keynes's wrestling with the quantity theory is found in Chapter 3 of the *Tract* dealing with "The Theory of Money and of the Foreign Exchanges", and particularly in the sub-section dealing with the Quantity Theory of money (1923:74 – 87). Keynes begins by

praising the orthodox position, the Quantity Theory of Money, "this theory is fundamental. Its correspondence with fact is not open to question" (Keynes; 1923:74).

He then identifies the weakness in the Quantity Theory: he starts off by tracing the neutrality of money assumed by the Quantity Theory, as disturbances make their way through the system without affecting real variables. "Now 'in the long run' this is probably true … But this *long run* is a misleading guide to current affairs. *In the long run* we are all dead. Economists set themselves too easy, too useless a task if in the tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again" (Keynes; 1923:80).

In the *Tract,* Keynes attacks Hume's specie-flow mechanism. He attacks the inflexibility of shackling one's country to an external monetary standard, robbing that country of the tools to work towards internal balance. His example turns out to be prophetic of British and South African monetary policy in the period up to 1931 in the case of Britain, and up to the end of 1932 in the case of South Africa. In both countries, the currency was shackled to the Gold Standard, "allowing the tides of gold to play what tricks they like with the internal price level and abandoning the attempt to moderate the disastrous influence of the credit cycle on the stability of prices and employment" (Keynes; 1923:172).

Two years later, in 1925, after Winston Churchill, then Chancellor of the Exchequer, returned Britain to the gold standard at pre-WWI parity, Keynes wrote a critical response entitled *The Economic Consequences of Mr Churchill* (1925) (hereinafter *Mr Churchill*). As we have seen from the models proposed by Locke, Hume, Ricardo, and below by Kemmerer, the equilibrating mechanisms in an unregulated global laissez-faire system are the individual product and factor *prices* in the internal national economies. The classical theory of Say and Ricardo tells us that *prices* must adjust in order for balance to be restored to the *quantity* of imports and exports, as well as import-substituting industries. What Keynes (1925) argued was that, aside from certain flexible prices which were not central to his argument, the first thing to adjust is a *quantity* and not a price, namely the number of unemployed, first in the most vulnerable industries, and then depending on the extent of the restriction of credit and other austerity measures, further unemployment. Only after this sustained pain will all prices adjust, and even then not uniformly. As Wells (1986) suggested, it was Keynes's "analysis of the economic effects of this overvalued sterling that gave the world of economics the earliest recognizably strong elements of what today is called macroeconomic theory" (Wells; 1986: 9).

It was also a splendid example of a development money thinker who did not take sectoral analysis for granted, as the sound money advocates tended to do. Keynes (1925) pointed out that:

> Our export industries are suffering because they are the *first* to be asked to accept the 10 per cent reduction. If *everyone* was accepting a similar reduction at the same time, the cost of living would fall, so that the lower wage rate would represent nearly the same real wage as before. But in fact, there is no machinery for effecting a simultaneous reduction. Deliberately to raise the value of sterling money in England means, therefore, engaging in a struggle with each separate group in turn, with no prospect that the final result will be fair, and no guarantee that the stronger groups will not gain at the expense of the weaker (Keynes; 1925: 247) (italics his).

The failure of the laissez-faire thinkers to sufficiently consider sectoral analysis blinded them to the principles which Keynes (1925) understood. Even if "the price of raw cotton in Liverpool" adjusted quickly to a difference in the valuation of the currency, "it is not sensible to argue from this that the money wages of dockers or charwomen and the cost of postage or of travelling by train also adjust themselves hour by hour" (Keynes; 1925: 249). Adjustment across the whole economy could take place, but only via high unemployment, sector by sector, industrial unrest after industrial unrest. "Wages will not fall in the sheltered industries merely because there is unemployment in the unsheltered industries" (Keynes; 1925: 252).

Wells (1986) summarised *Mr Churchill* noting that (1) it "provides a clear strong statement of the money wage-cost of production-price structure of modern industry", (2) that "money wages are downwardly sticky" and (3) that the mechanism malfunctions as detailed above (Wells; 1986:26). The theory detail in (1) above was first set out by Keynes in *Mr Churchill* (1925), then expressed in the *Treatise* (1930, Vol 1: 61-76), and then in the *General Theory* chapters 3, 19, 20 and 21 (Wells; 1986: 14).

The crucial element was that workers are not indifferent to whether the cut in real wages is done in nominal or real terms. They would accept inflation, but not a cut in monetary wages. This may seem irrational, but there are at least three reasons why it is logical:

1. Across the board inflation affects the real wages of all workers evenly. This makes it more acceptable to workers, who tend to compare their wages to those of people in other sectors.
2. Quick mobility between different sectors is not always easy. "[I]f a collier out of work or underpaid could offer himself as a baker, a bricklayer, or a railway porter at a lower wage than is now current in these industries, it would be another matter" (Keynes; 1925: 260) but immediate transition to another sector is not always an option.
3. Finally, lower wages may weaken effective demand, denying the system full employment.

Related to prices are the phenomena of inflation and deflation, which attracted Keynes's attention in the inter-war period. Following up on the theme of multiple price levels in an economy, Keynes, in the *Treatise,* discussed different price levels, warning that they should not be treated equivalently. Having previously questioned the validity of 'purchase power parity' in the *Tract*, he went on to state that, "in its purest form [purchase power parity theory is] no more than a re-statement of the proposition given above to the effect that the rates of foreign exchange between two currencies move in the same way as the ratio of an international index expressed in the prices of one country to the same index expressed in the prices of another country" (Keynes; 1930:72). Keynes warned, however, that while the wholesale index "was moving rapidly into adjustment – as an international index necessarily must", it was misleading to say that "therefore the same thing was true of 'prices generally'" (Keynes; 1930:75). Keynes continued with this theme in Chapter 6 of the *Treatise*, 'Currency Standards', in which he criticised Edgeworth's and Jevons's attempts to find a measure of "general prices". Keynes notes that

> there is no moving but genuine centre, to be called the general price level or the objective mean variation of general prices, around which are scattered the moving price levels of individual things. There are all the various, quite unique, conceptions of price levels of composite commodities appropriate for various purposes and enquiries which have been scheduled above, and many others too. There is nothing else. Jevons was pursuing a mirage" (Keynes; 1930:85-86).

Having criticised the simplistic Quantity Theory model, based on the assumption of a single price level, Keynes then went on in Chapter 7 of the *Treatise* to build a more complex model. He noted that if there is an increase or decrease in the amount of money "the increase or

decrease ... is not spread evenly and proportionately over the various buyers. It will, in general, be concentrated in the hands of particular classes of purchasers" (Keynes; 1930:92). He then developed his idea of the stickiness of wages as a reason for "the failure of different price levels to move together" (Keynes; 1930:94).

On both sides of the fundamental equation (Keynes; 1930: 133 – 157), Keynes points to two types of inflation: profit and income inflation on the one side and commodity and capital inflation on the other. His stated concern was with income and profit inflation. It was by the anticipated profit or loss that entrepreneurs affected prices and it was by anticipating this that "the banking system is able to influence the price level" (Keynes; 1930:159).

With Keynes's newfound concern for price levels comes an equally strong concern for the regulation of the banking sector. Unlike his escape from the quantity theory of prices, which evolved in the 1920s, Keynes's heterodox understanding of banking, and its effects on money supply, predate WWI. His understanding that most money is created in the banking system was set out in his first book *Indian Currency and Finance (ICF).* It was, in a way, one of two archetypal monetary systems which informed Keynes's approach to monetary economics. The first was the backward, uncivilised world where trust is at its lowest, no banking system of note was developed, no-one trusted bank loans, no-one trusted cheques or other negotiable instruments, and wealth was hoarded in a base and heavy metal, such as gold, far from any useful application by a clever entrepreneur or existing business owner. "Keynes was fascinated by the legend of King Midas, whose hunger for money was such that his food and wine turned into gold. Perhaps he started to see himself in legendary terms – as a Dionysus come to turn Midas' gold back into food and wine" (Skidelsky; 1992:175).

In Keynes's mind, there was a clear connection between the distrust involved in not accepting paper currencies or the instruments of an advanced banking system and the primitive instinct to hoard wealth. It was in Keynes's first book, *ICF* (1913) that he discussed hoarding, and of course, the negative effects of hoarding were to be developed in his later books, particularly in *The General Theory.*

> The extent to which the people resorted to hoarding … during the Balkan War was very remarkable, and has exhibited a danger to which the banking systems of those countries are still subject, although some have begun to forget it. …. Some banking failures, a

> hint of political trouble, - and the old habits will come back, whatever progress banking may seem to have made in a time of prosperity (Keynes; 1913:165).

I would argue that Keynes had in his mind ideas about advancing financial civilisation, not always a stable thing, away from the "barbarous relic" of the Gold Standard and away from the primitive urge to hoard. A well-regulated and stabilised banking and financial system would afford what he called in another context, "that degree of civilisation which we have already attained" (Keynes; 1963:324).

Keynes believed that British monetary success would come with a move away from the "barbarous relic" of mistrust represented by the Gold Standard and towards the trust, co-operation and shared resources of the British banking system, the London capital market, and the use of cheque books by businessmen. "In England the use of a cheque currency has grown so universal that the composition of the metallic coin has become a matter of secondary importance" (Keynes; 1913:69-70). Later, in *ICF*, he pointed out that "[t]he 'sound currency' maxims of twenty or thirty years ago are still often repeated, but they have not been successful, nor ought they to have been, in actually influencing affairs… It has been found that the expense of a gold circulation is insupportable and that large economies can be safely affected by the use of some cheaper substitute" (Keynes; 1913:71-72).

This theme of civilising progress detailed in *ICF* continued in the *Treatise.* Keynes included "debt contracts" in the definition of money, noting that if only the narrower definition of "a convenient medium of exchange" is allowed, "we have scarcely emerged from the stage of barter" (Keynes; 1930:3). As a dig at those seeking a metallic base for money, Keynes noted that state-sponsored money constituted "all civilised money" in 1930 (Keynes; 1930:5). He pointed out "the futile attempts to ignore the existence of bank money and consequently the inter-relationships of money and bank credit" (Keynes; 1930:17). Having identified the inclusion of bank-created money in the definition of money, Keynes went on to show, not only that banks do create money, but that the extent of the money created is demand driven and credit determined (Keynes; 1930:25-26), a theme picked up by Basil Moore almost sixty years

later (Moore; 1989:11).[34] Keynes pointed out that this system of bank-created money relies on moneys supplied by individual banks being in step with those of their colleagues in the rest of the banking system.

As if to support the fundamental equations he detailed in the *Treatise* (Keynes; 1930: 133 – 157), Keynes noted that ninety per cent of money in the USA and Britain is bank money. Not to take into account this predominance resulted in the "essential characteristics" of the total money supply "being treated as anomalous or exceptional" (Keynes; 1930:33). For reasons of overall coherence, Keynes simplified his treatment of money in the *General Theory*, assuming it to be largely exogenously determined. His acute awareness in *ICF* of the power of the banking system to expand monetary supply, and similar articulations of endogenous money supply by the banking sector in the *Treatise*, are missing from the *General Theory*. "While that book (the *General Theory*) represented a sharp break from his early *Treatise on Money*, in one important respect it was inferior. The two volumes of the *Treatise on Money* provided an institutionally detailed analysis of money and financial markets" (Minsky; 1975: xiii). Minsky noted that in the *Treatise* Keynes worked with "more natural concepts of money than the standard theory admitted, in that money as created by banks indirectly represented business debt ... (That) money changes to the price level ... operates first by affecting business financing of investment" (Minsky; 1975: 8).

Related to endogenous shifts in money supply, in an economy with a highly developed banking sector, Keynes's article *The Consequences to the Banks of the collapse of Money Values* (1931), published in his *Essays in Persuasion*, makes for interesting reading. He acknowledged what this dissertation has commented on elsewhere, that deflation strengthened the financial position of the creditor and weakened the debtors (Keynes; 1931: 170). Beyond some point, however, further falls in prices would endanger the banks. He pointed out that "for marketable assets a 'margin' of 20 per cent to 30 per cent is conventionally considered adequate" (Keynes; 1931:171). But when the fall in asset prices reached 50%, banks would make up for their illiquidity in assets, by becoming "particularly anxious that the remainder of their assets should be as liquid and as free from risk as possible." This meant that "the banks are less willing than

[34] An excellent summary of Moore's views and his debate with Charles Goodhart can be found in "Has the demand for money been mislaid? A reply to 'Has Moore become too horizontal?'" in *Journal of Post Keynesian Economics.* 14(1), pp.125-133.

they would normally be to finance any project which may involve a lock up of their resources" (Keynes; 1931: 171-172).

This was a systemic problem, causing acute liquidity preference, which cannot be blamed on individual bankers. Bankers follow prudential guidelines which are arrived at through collective banking practice so that, "a 'sound' banker, alas! is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way along with his fellows, so that no one can really blame him" (Keynes;1931: 176).

The cumulative effect of this liquidity preference is dealt with in Irving Fisher's article *The Debt-Deflation Theory of Great Depressions* (1933). Fisher (1933) set out a nine-step cumulative process of debt deflation, commencing with "a state of over-indebtedness" which would "tend to liquidation through the alarm either of debtors or creditors or both" (Fisher; 1933: 341-342), and finally to "hoarding and slowing down still more the velocity of circulation", and then to "complicated disturbances in the rates of interest" (Fisher; 1933: 342). I can find no mention of Fisher's (1933) *Debt Deflation* in Keynes's *General Theory* (1936), nor in his other works, but Fisher's (1933) ideas have been taken up by post-Keynesian thinkers, including Minsky (1975), Keen (2000); and Richard Koo in his *The World in Balance Sheet Recession* (2011).

Given the vulnerability connected to the banking sector, central banks had, for Keynes, a crucial role to play. In an agricultural economy like India's, someone in authority needed to deal with excessive money supply at the time of the harvest and chronic shortages of it in the growing season (Keynes; 1913:258). In advanced countries with banking systems, pro-cyclically determined money supply added to the instability of the business cycle. Both scenarios required the steady hand of a monetary authority. "The ultimate solution probably lies in the establishment of a central bank for India which shall be the government bank and shall hold the banking and currency reserves at the same time" (Keynes; 1913:161). "Something must be said for proposals for a state bank. This is a proper subject for inquiry by a royal commission." (Keynes; 1913:232-233).

The central bank's function of lender of last resort was not something much talked about in monetary debates in the early 19th century, until Walter Bagehot, as editor of the *Economist* newspaper, raised the issue in the 1860s. This points to the power of the laissez-faire paradigm

in which state support had no place. Yet in a world of regular bank crises, it is a wonder that it took so long for someone to have the courage to raise it (Fetter; 1965:200-206).

This function as lender of last resort was very much in Keynes's mind in *ICF:*

> We now come to the much more important question of the adequacy of the sterling reserves. I do not think it has ever been thought out quite clearly for what precise purposes these reserves are held. The difficulty can be put shortly in this question - are they held purely as a currency reserve, or are they to fulfil also the purpose of a banking reserve?" (Keynes; 1913:147-148).

In Keynes's correspondence with Herbert Foxwell at the Treasury, he clearly indicated that he would have argued more stridently for full reserves to be held by an Indian central bank to be used in the event of both a currency and a banking crisis, had the support for an Indian central bank been greater (Moggridge; 1992:227). The difficulty of getting past vested interests in order to set up a central bank was well understood by Keynes.

> The government is naturally afraid of so troublesome a proposal – and one so far removed from that which they are used to; while there is no important body which is sufficiently interested in forcing it on their attention. The banks fear a possible rival; merchants are content with present prosperity; and no one else knows anything about it. I shall be astonished, therefore, if action is taken while times are good. Perhaps we may have to wait for the lessons of a severe crisis. Only under some such strong influence as this is it likely that the responsible government will nerve itself to the task, or the business community acquiesce in it (Keynes; 1913:238-239).

Such a "crisis" was exactly what caused the establishment of the SARB. Building up and retaining the reserves of a proposed central bank was an integral part of working towards stability.

Serious monetary disequilibrium started with Britain's return to the Gold Standard in 1925 and was then exaggerated by the development of the Great Depression. In the MacMillan Committee, one of the seven possible remedies which Keynes suggested was a co-ordinated

effort between the central banks of the world to drive down interest rates in order to stimulate investment.

Ironically, given the straitjacket of rules which central bankers have been subject to in the post-Milton Friedman world, Keynes hoped that a central bank staffed by educated and competent monetary authorities could be trusted to use their *discretion* in applying their minds to the monetary problems which they faced from time to time. "Keynes's characteristic preference for discretionary arrangements as opposed to fixed rules emerges very clearly, as does its condition: expert management shielded from political interference" (Skidelsky; 1983:280). He railed against rigid rules for monetary policy. "The 'independent Treasury system' and the traditional aloofness of the government from the money market was seen at their worst. Millions of rupees were lying idle in the government treasuries at the time of year when there was most work for them to do outside" (Keynes; 1913:258).

Keynes was also well aware that bankers could not be trusted to regulate themselves.

> New banks are springing up with alarming rapidity … The fear is that if one of these mushroom growths fail, others will follow, and the timid depositor, unable to discriminate between the sound and the unsound concerns, will make haste to get his money back from whatever bank it is in, and his confidence in banking institutions thus rudely checked will take years to win back … various suggestions have been made as to what restrictions would be proper. It has been proposed that it should not be permitted to combine banking operations with other businesses … and that capital and reserves should bear a certain proportion to liabilities before dividends may be paid (Keynes; 1913:231-232).

5.2.1.4. Keynes as an advocate of national development (1920 -1939)

A popular view of Keynes's economic output is to consider his earlier works of heresy against the gold standard and price specie flow mechanism orthodoxy as some sort of confused thinking. The Keynes who wrote of disequilibrium was dismissed as someone who "did not understand his own story" (Temin & Vines 2016). Keynes, for some economists, only became attractive once the rough edges of his thinking about inherent instability in an environment of uncertainty had been filed smooth by Hicks and Hansen with IS/LM analysis (Hicks; 1966), so

that he fitted neatly back into the equilibrium-obsessed Neo-classical box from which he had tried so hard to extricate himself. Even amongst the later works of Keynes, one senses that the equilibrium-obsessed would feel more comfortable cutting chapters 12 and 23 from the *General Theory* (1936), and burning his February 1937 article. Chapter 12 dealt with the inherent uncertainty and hence instability of investment performance, chapter 23 praised the Mercantilists, and the February 1937 article emphasised that the central message of the *General Theory* was about uncertainty and hence the instability of the investment function.

Contrary to the view that only the holistic presentation of the *General Theory* is worth focusing on, Keynes in the crises of the 1920s and early 30s was at his most brilliant. To paraphrase Keynes – equilibrium-obsessed economists set themselves too easy, too useless a task if they ignore the writings of Keynes in the tempestuous seasons, and concern themselves with fine-tuning when the storm is long past and the ocean is flat again (apologies to Keynes; 1923: 80). The Keynes in a crisis from 1920 until the mid-1930s, who could understand institutional complexity, monetary, currency and banking geo-politics, the dearth of investment, and that animal spirits had been disturbed, was just as fascinating as the later Keynes of the complete theory, packaged and integrated into orthodox economics.

After WWI, Keynes was at the British Treasury, thinking through a financial plan for a devastated Europe. In April 1919, he submitted his "Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction" to the British cabinet (Rauchway; 2015: 10). In terms of Skidelsky's neat table (2018: 39) (see pages 35 and 36), "it was a simple plan to endogenously create money by the German State floating a bond issue, which would be guaranteed by the Central Powers, with the shortfall, if any, being taken up by the Allies. 70% of the proceeds would go towards the Allies as reparations, 10% to pay off German obligations to smaller nations like the Scandinavian countries, the Netherlands, Switzerland", with the remaining 20% going to "buy food and raw materials for reconstruction" in Germany (Rauchway; 2015: 10).

As discussed on page 23 above, J P Morgan's Thomas Lamont, acting as Wilson's advisor, rejected Keynes's plan in 1919. The House of Morgan became the dominant international finance house during WWI, being both the British government's purchasing agent, and their chief financiers. J. P. Morgan dangerously overextended themselves in the process, with their overdraft to the British government reaching $400 million by November 1917 (Dayer; 1976:

139). In December 1917, the enormous risk of over-lending to the British government finally paid off, with Lamont reporting to his fellow J. P. Morgan partner, "I finally got word last night at seven o'clock from Washington that the long-delayed call loan deal … will go through on February 1st. This will lighten up the call loan so materially that we shan't have to worry any more about that".[35] The proceeds of US government Liberty Bonds were used to settle the J P Morgan loan to Britain, which was then taken over by the US government. After this bailout of J. P. Morgan by the Wilson government, Lamont was appointed financial advisor to the administration, "serving as Wilson's financial advisor at Versailles" (Dayer; 1976: 143). With Lamont having killed Keynes's German government bond plan to deal with the reparations and reconstruction crisis in Germany, and amongst other European countries, the J. P. Morgan-centric policies became those of the US administration. These policies of forced, unaffordable reparations, and related austerity to pay for them, were enforced by an American reparations agent with ties to the House of Morgan.

This turn of events explains the particularly venomous attack on the character of Woodrow Wilson in *The Economic Consequences of the Peace* (1919). Keynes rightly understood Wilson to be the one delegate at the Treaty of Versailles with the power to re-establish the international monetary and trading system, but he failed to muster the vision and generosity of spirit to see it. Wilson was a man who, when he "left Washington … enjoyed a prestige and a moral influence throughout the world unequalled in history" (Keynes; 1920:38), but who turned out to be a "blind and deaf Don Quixote" (Keynes; 1920: 41). Unlike the internationalists in the Bank of England and the Treasury in the 1920s, Keynes did not waste his time trying to win over the Americans to adopt a more generous position. Once it was clear that the American authorities would not provide the necessary generosity to assume leadership of the world's monetary system, Keynes turned his attention to prioritising the national economy over any international obligations. De Cecco noted that, two decades after the this failed private finance experiment:

> Germany's default was brought about by the drying up of American long-term lending much less than by the impossibility of maintaining the gold standard in spite of massive destabilising short-term movements. J.M. Keynes and H.D. White were then right when

[35]Dayer (1976: 141) quoting a letter from Lamont to Davison dated 30 January 1918, Lamont Papers file 91-3.

> they attributed to short term capital movements the role of Chief Villain in the post-war international monetary order they designed (de Cecco; 1985:61).[36]

As Barry Eichengreen (1992) has shown, countries that abandoned their international obligations early, left the "golden fetters" of the then international gold standard, and focused instead on their national economies, recovered quicker and better from the Great Depression. Keynes understood this principle and articulated it in his *Tract* (1923*),* in the *Treatise* (1930a; 1930b), in his lecture delivered at University College, Dublin, on 19 April 33, entitled '*National Self-sufficiency* (Keynes; 1933) and in parts of the *General Theory* (1936) particularly chapter 23.

ICF (1913), written in his internationalist phase, was "critical to his later formulation of the concept of a national economy – the state's control of the circulation of money within a defined geographical space" (Mitchell; 2002:6). Later, the experience of desperate debtor nations would impress on him that creditor and debtor nations did not approach monetary disequilibrium as equals.

> It is characteristic of a freely convertible international standard that it throws the main burden of adjustment on the country which is in the debtor position on the international balance of payments. … The contribution in terms of the resulting social strains which the debtor country has to make to the restoration of equilibrium by changing its prices and wages is altogether out of proportion to the contribution asked of its creditors. Nor is this all. … The social strain of an adjustment downwards is much greater than that of an adjustment upwards. … The process of adjustment is compulsory for the debtor and voluntary for the creditor. If the creditor does not choose to make, or allow, his share of the adjustment, he suffers no inconvenience. For whilst a country's reserve cannot fall below zero, there is no ceiling which sets an upper limit. The same is true if international loans are to be the means of adjustment. The debtor must borrow; the creditor is under no such compulsion (J.M. Keynes; 1941, CW XXV: 27-8).[37]

[36]Although the dominance of Private finance in this period was causally connected to this short-term funding curse.

[37]Quoted in Moore (2006:433)

Although in 1919 Keynes failed to get the United States to commit to a monetary system that was generous to debtor nations in crisis, the post-1945 America was not so short-sighted. What separated the disastrous aftermath of 1919 from the prosperity and stability of the post-1944 agreement was that, in the post-Second World War period, the United States implemented the generosity necessary to ensure Britain and Europe's re-engagement in the world trade system.

Keynes was almost uniquely aware that faith in the international monetary mechanism after the Treaty of Versailles was naïve and misplaced, because Britain could not, and America would not, assume the necessary international leadership. Far from participating in the naïve veneration of David Hume's price-specie flow mechanism, Keynes understood that for international adjustment to work, the creditor nations must permit the adjustment by way of loans. This adjustment was voluntary for the US in the 1920s, and they had no intention of shackling themselves to a utopian model for the benefit of those nations in crisis. The prescription of "austerity" and the deflation of prices in the debtor countries was a convenient excuse for those, seized by the spirit of Scrooge, for whom international adjustment was voluntary.

Keynes, throughout his life, was acutely aware of how power played itself out on the world stage. Before 1914, Britain led a globalised international system of monetary co-operation which, together with the extra production from South African gold mines since the 1880s, meant that world money supply kept pace with demand, the monetary system had a global leader, and governments were committed to co-operation. After 1918, all of that had changed. Britain was too weak to lead, and America too unwilling. With the extension of the franchise, the election of labour and workers' parties in Europe, and the economic turmoil of the debt-laden European governments, the co-operation of the pre-1914 era broke down. Still the majority of economists clung to a failed internationalism. Keynes was not one of them. He clearly understood the geo-political reality.

Keynes's *Tract* (1923), was a forceful 205-page argument *against* maintaining international obligations when national problems suggest a contrary approach.

> In practise the Federal Reserve Board often ignores the proportion of its gold reserve to its liabilities and is influenced, in determining its discount policy, by the object of maintaining stability in prices, trade and employment. Out of convention and

> conservatism it accepts gold. Out of prudence and understanding it buries it (Keynes; 1923: 197).

Far from appealing "to the original form of the price-specie flow mechanism" as Temin and Vines suggest (2014: 6), Keynes attacked it head on in the *Tract* (1923). He pointed out that "the depreciation of the dollar through inflation in the United States, is that on which many have based their hopes. But it could only come about by a reversal or defeat of the present policy of the Federal Reserve Board" (Keynes; 1923: 201), something which he knew was not going to happen.

> The reinstatement of the gold standard means, inevitably, that we surrender the regulation of our price level and the handling of the credit cycle to the Federal Reserve Board of the United States (Keynes; 1923: 175).

Volume 1 of the *Treatise* (1930) continued Keynes's line of thought about international disequilibria, although it is true that the final chapter of Volume 2 is dedicated to a discussion about re-establishing an international monetary system. Nevertheless, Keynes pointed out that with an international monetary system such as the gold standard, the central bank is forced to focus on external equilibrium, often at the expense of internal disequilibrium. He noted that, since 1924, France and the United States had ignored external disequilibrium to focus on their own "internal equilibrium" while Britain had been stoically holding up its reputation as the great standard bearer of international equilibrium, and at the same time suffering internal disequilibrium. Keynes pointed out that orthodox equilibrium analysis assumed that the volumes of foreign lending (balance on the capital account), the foreign balance (balance on the current account) and the "internal money costs of production are all ... very susceptible to small changes in interest rates, prices and the volume of employment respectively" (Keynes; 1930: 165). He pointed out that the evidence was against such confidence in these orthodox assumptions, and reiterated the central point in the *Tract*, namely that, in a world of monetary disequilibria, the authorities should focus on achieving internal equilibrium.

Chapter 15 of the *Treatise* deals with "the industrial circulation and the financial circulation". In considering the industrial consequence of a change in money supply, Keynes observes that the "injection of an increased quantity of cash ... into the monetary system will increase the reserve/resources of the member banks, it will ... render the latter more willing lenders on easier

terms; that is to say, the new money stimulates the banks to put resources at the disposal of those borrowers who are ready to employ them" (Keynes; 1930: 263). It is noteworthy that Keynes only appeared to develop his understanding of the liquidity trap in his 1931 article *The Consequence to the Banks*, and then further in the *General Theory*. It is not properly developed in the *Treatise* (1930).

Keynes noted the important role that the central bank has to play in correcting disequilibrium and particularly in looking after its real economy in the process. He referred to the same criteria which Eichengreen (1992) picked up with the benefit of hindsight, namely that "the central bank, whose policy is most independent of the policy of the other (central banks), and keeps its market rate nearest to its natural rate throughout the transition, will suffer least absolute change in its rate of earnings" (Keynes; 1930: 337).

Keynes used the arguments of the *Treatise* (1930) in his debates in the Macmillan Committee, mainly focusing on how to make up a shortfall in investment, in the context of the monetary disequilibrium which started with Britain's return to the gold standard in 1925. What I would like to highlight is that, of the seven possible remedies which Keynes proposed in this Committee, six of them, including his favourite (home investment), were national, rather than international, proposals. They were devaluation, a national treaty to reduce domestic money incomes, bounties to industry, rationalization, tariffs, home investment and, the only international measure, coordinated action by the central banks of the world to cut interest rates to stimulate investment.

Perhaps Keynes's strongest arguments in favour of the national economy are set out in his Self-sufficiency lecture (1933). In its anti-imperialism, it has some resonance with this dissertation. In it he imagines less imperialist relations between Britain and Ireland:

> If you owed us no money, if we had never owned your land, if the exchange of goods were on a scale which made the question one of minor importance to the producers of both countries, it would be much easier to be friends. I sympathise, therefore, with those who would minimize, rather than those who would maximise, economic entanglement between nations. Ideas, knowledge, science, hospitality, travel – these are the things which should by their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and above all, *let finance be primarily*

national. (Keynes; 1933: 181) (italics mine).

Policies to maintain domestic demand and a careful focus on maintaining production in this period would be crucial. In chapter 23 of the *General Theory*, entitled "Notes on Mercantilism, the Usury Laws, Stamped Money and Theories of Under-consumption", Keynes argued that

> The Mercantilists were under no illusions as to the nationalistic character of their policies and their tendency to promote war. It was national advantage and relative strength at which they were admittedly aiming. We may criticise them for their apparent indifference with which they accepted this inevitable consequence of an international monetary system. But intellectually their realism is much preferable to the confused thinking of contemporary advocates of an international fixed gold standard and laissez-faire in international lending, who believe that it is precisely these policies which will best promote peace (Keynes; 1936: 348).

Karl Polanyi argued that the "origins of the cataclysm (of the 1930s and 40s) lay in the utopian endeavour of economic liberalism to set up a self-regulating market system" (Polanyi; 1944: 31). Keynes's writing in the interwar period engaged with this idea. Perhaps the consequence of the economic internationalism of the relatively stable period from 1870 until 1914[38] was the instability of the period that followed it and ended in WWII. The system that White and Keynes put in place at Bretton Woods was substantially different. Whereas the pre-1914 period was dominated by the free flow of capital, Keynes and White agreed on capital controls to allow nations devastated by WWII to rebuild their economies.

Like White, Keynes detested the "blonde beast in Germany" (Keynes; 1933: 178), and declined an invitation to visit Nazi Germany in 1934, responding to the Mayor of Hamburg's invitation that "after the death of my friend (the Jewish Carl Melchior, dismissed from the Bank of International Settlements by the Nazis, who died in 1933) … there is nothing left that could attract me" (Skidelsky; 1992: 486). Like White, Keynes saw the progressive hope of the world in FDR's New Deal administration, and, outside of Britain, this is where Keynes focused his

[38] Despite the global recession from 1873 to 1896.

energy (the central theme of Rauchway; 2015).

Of course, there are times when greater internationalism was the correct economic path, such as the period 1870 - 1914, and again the period from 1944 to 1971 under a different monetary regime. Keynes supported an international monetary system in both of these periods. But to dismiss Keynes's economic nationalism in the 1920s and 30s as muddle-headedness is to seriously misread him.

5.2.2. Harry Dexter White, and development money

Harry Dexter White was committed throughout his life to a monetary and economic policy aimed at inclusive development. Like Keynes, White was conscious that the tide of the free market did not lift all boats. But although their thinking was remarkably similar, White came from a decidedly humbler background. While Keynes's letters of recommendation, if he applied for any post, would have come from Eton College and Cambridge University, White's letters in support of his application for Officer training in WW1 came from "Morris Gordon Wholesale Kitchen Furnishing"[39] and "Lalance & Grosjean Mfg Co – Agate Nickel-Steel Ware"[40] of Boston. A similar letter from 2nd Lt Inf Isaac B. Simon stated that White had a "physique better than the average. His personal habits are of the cleanest; he does not touch liquor, or tobacco, or women".[41]

Five years and eight months before the private debt-fuelled stock market bubble burst in October 1929, White wrote to Senator Robert La Follette[42] on behalf of "a group of men consisting for the most part of mature students of Stanford University who are in thorough

[39]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Morris Gordon to Commanding Officer, Eastern Dept., Governors Island, New York, dated 5 April 1917.

[40]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from G Bath to Commanding Officer, Eastern Dept. Governors Island, New York, dated 5 April 1917.

[41]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Isaac B. Simon to Commanding Officer, Eastern Dept. Governors Island, New York, dated 7 April 1917.

[42]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Senator Robert La Follette, dated 29 February 1924.

accord with your ideals and your policies". Disillusioned that both the Democratic and Republican candidates were sponsored by corporate America, White urged La Follette to "become a candidate for the office of President of the United States in 1924".[43] La Follette was persuaded by White and others, and stood as the Progressive Party candidate in the November 1924 election. La Follette got 16.6% of the vote, one of the best third-party performances in American politics (Steil; 2013: 19). His coalition included Unions and other progressive groups, but excluded the Communist Party, which La Follette stopped supporting after being disillusioned by the absence of civil liberties that he witnessed when visiting the Soviet Union in 1923. White seemed to have been quite involved in the campaign, as a "Progressive Party declaration" in his papers includes a typed draft and a professionally printed final version,[44] suggesting his involvement in producing it. This declaration started by acknowledging that the problem of producing sufficient quantities of goods, which had vexed previous generations, had been solved. "For the first time in the history of the human race we find it possible to produce in abundance all of those things that are needed by our citizens to enjoy life to the fullest degree".[45] It went on to highlight the terrible consequence of "rugged individualism" in an "economic system based on scarcity",[46] and to describe idle textile and clothing workers, despite many in rags, idle doctors and dentists, despite 75% of people not getting the medical care that they needed, and idle teachers because local authorities did not have the budget to employ them. Although not using what would later become Keynes's language, the declaration describes a deficit in aggregate demand that could have been written by Keynes himself. It went on to oppose the military imperialism of previous US Presidents, which was particularly egregious in the Woodrow Wilson administration (Loewen; 1995; 22-26). Both the Republican and Democratic Parties had "demonstrated their willingness to serve the interests of the owners of our nation's industries and wealth by sacrificing the welfare of the people as a whole; by

[43]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Senator Robert La Follette, dated 29 February 1924, page 1.

[44]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, undated *Progressive Party Declaration of Principles.*

[45]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, undated *Progressive Party Declaration of Principles*, page 1.

[46]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, undated *Progressive Party Declaration of Principles*, page 1.

engaging in imperialistic wars to save the investments of American capitalists abroad and their economic and political control at home".[47] This anti-imperialist sentiment animated much of White's political motivation in public life, including his disdain for British imperialism.

As mentioned in the introduction, White undertook his Ph.D. "to test and verify the doctrines of the orthodox theory of international trade" noting that "[t]he theory of international trade has at no time remained undisputed", despite being "impregnable" "only a generation ago" (White; 1933: 1). His dissertation was completed at Harvard "under the supervision of noted economist Frank Taussig" (Steil; 2013: 20). It was published as *The French International Accounts, 1880-1913* in 1933.

White was conscious that the extent to which capital flowing into a country as loans was spent within that country depended on the level of development in that country, and whether the goods necessary for development were readily available there (White; 1933: 21). Like Keynes, White rejected the notion that factors of production, particularly Labour, will automatically tend to be fully employed if the price is correct. Like Keynes in the *General Theory*, he understood that 'equilibrium" might come from an adjustment in output (White; 1933: 25-26). Like Keynes too, White was focused on demand in an economy – what Keynes called "effective demand" (White; 1933: 29). His central question seemed to be: do capital flows (by loans, investments or gold flows) cause a change in demand schedules, or a change in prices? (White; 1933: 34). White (1933) was acutely aware of the effect of a change in yield (interest rate) on the valuation of bonds and other investments.[48] He also made the necessary distinction between a highly developed country and an under-developed one. In a highly developed country, capital imports, whether loans or investments, are able to stimulate the purchase of capital goods, or material necessary for infrastructural development by buying locally. If a country is less developed, these purchases of capital goods and infrastructural material must be made by way of imports. White discussed the implications of this for that country's balance of payments (White; 1933: 143 – 147).

[47]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, undated *Progressive Party Declaration of Principles*, page 1.

[48]Unlike Piketty (2014), who assumes a uniform return of an average of 5% over the periods of his work. White discusses at length the problem of the change in the valuation of a capital asset as a result of a change in its yield.

He concluded "The French experience in the matter of capital exports leads to the conclusion that the orthodox attitude towards unrestricted capital exports is open to criticism, the assumption that capital exports benefit both the lending country and the world at large is not unassailable. … some intelligent control of the volume and direction of foreign investments is desirable" (White; 1933: 311-312). Steil describes this conclusion as "pure Keynes", albeit lacking "the master's barbed eloquence" (Steil; 2013: 21).

Like Keynes in *The Tract* (1923) and Bernstein in *Money* (1935), White argued for internal balance. "When a country confronted an adverse balance of payments with the world (more imports and bond purchases than exports and bond sales), it faced, White said, a choice 'between two evils': a fall in the exchange rate or a fall in the domestic price level. Both were destructive. Both were undesirable. But a choice had to be made" (Steil; 2013: 24). White, like Keynes, believed that the choice had to be for internal balance in favour of the real economy.

White worked extensively with Professor F. W. Taussig of Harvard University, collaborating with him on published work and teaching,[49] and co-authoring a paper arguing for tariff protection for the US rayon textile industry.[50] It concluded that the development of this industry "is made somewhat more difficult when there are low duties, still more difficult when there are none".[51] At Harvard University, White made the acquaintance of Joseph Schumpeter, who wrote to him remembering "with pleasure our contact".[52] In June of 1933, White was elected full Professor of Lawrence College, Wisconsin.[53] In the same month, White's book, *The*

[49]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letters from Professor F. W. Taussig dated 10 October 1930 and 5 December 1930.

[50]*Rayon and the Tariff: The Nature of an Industrial Policy*, by F. W. Taussig and H. D. White, Quarterly Journal of Economics, Vol XLV, August 1931.

[51]*Rayon and the Tariff: The Nature of an Industrial Policy*, by F. W. Taussig and H. D. White, Quarterly Journal of Economics, Vol XLV, August 1931, page 621.

[52]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Professor J. Schumpeter dated 22 October 1932.

[53]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Lawrence College dated 14 June 1933.

French National Accounts, 1880 – 1913 (White; 1933), came to the attention of Professor Jacob Viner at the University of Chicago, and Viner wrote a friendly and engaging letter to White.[54] It was through Viner that White became involved in government work, which he never left until the end of his career in 1948. A year after White first came to Viner's attention, Viner invited him to work for the US government on studies "under my general direction on a comprehensive survey of our monetary and banking legislation and institutions".[55] The progressive policy environment suited White's beliefs, and White's rise through the ranks was steady and sure. His first temporary position was at "one third of your academic salary, … plus $200"[56] per annum, beginning on 9th June 1934, and he was then given another temporary post as "Treasury Economic Analyst" at $5700 per annum on 20th June 1934,[57] followed by a permanent appointment at $5600 per annum in November 1934,[58] as Assistant Director in October 1936 at $6500 per annum,[59] rising to $7500 per annum in July of 1937,[60] then a

[54]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Professor J. Viner dated 26 June 1933.

[55]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Professor J. Viner dated 7 June 1934.

[56]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Professor J. Viner dated 7 June 1934.

[57]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from H. McReynolds dated 20 June 1934.

[58]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from H. McReynolds dated 1 November 1934.

[59]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Administrative Assistant to Secretary of Treasury dated 1 October 1936.

[60]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Secretary of the Treasury dated 1 July 1937.

position as Director of Monetary Research at $8000 per annum in March 1938.[61] Finally, White was appointed Assistant to the Treasury Secretary in August 1941 at $9000 per annum.[62]

White's archive is full of examples of his passion for the welfare of developing countries. He was an enthusiastic supporter of FDR's good neighbour policy in Latin America (Helleiner; 2014: 24, 40-44). When the Assistant Secretary of the State Department wrote to the Secretary of the Treasury to thank the Treasury for their support of this policy, White was the only one mentioned by name, "I am particularly grateful to Mr White, who worked unceasingly".[63] Sol Adler, who worked at the Treasury with White, wrote to White's sister, in 1956, "There is no need to mention how non-Anglo Americans regarded Harry. The Latins considered him a real brother because he was one of the few Americans with whom they came into official contact who responded to them as a human being".[64]

White supported his fellow New Deal American, George Blowers, on Ethiopia. Blowers, like White, had worked to strengthen the sovereignty of developing nations and was "strongly anti-British". Blowers, who had previously worked for the Bank of Monrovia in Liberia, was appointed by Yilma Deressa, Ethiopia's top financial official under Emperor Hallie Selassie, to assist Ethiopia with its financial policy, and later to head up the Ethiopian delegation to Bretton Woods (Helleiner; 2014:230). Deressa is a fascinating personality in the history of monetary policy, about whom we know very little. He was "British educated" (Helleiner; 2014:228) and active in strengthening Ethiopian financial sovereignty, despite British opposition. "In the face of British intransigence, the Ethiopian government chose unilaterally in August 1942 to re-open the Bank of Ethiopia that Selassie had established before Italian

[61]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Secretary of the Treasury dated 25 March 1938.

[62]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Secretary of the Treasury dated 25 March 1941.

[63]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Adolf Berle, Assistant Secretary of the State Department to Henry Morgenthau, Secretary of the Treasury dated 27 February 1940.

[64]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 17, letter from Sol Adler to Mrs Bloom White dated 24 November 1956.

occupation. Although its purpose was initially described simply as offering industrial loans and acting as the government's fiscal agent, the ultimate goal was to transform it into a modern central bank managing a new Ethiopian currency" (Schaefer; 1992, paraphrased by Helleiner; 2014:228). White worked with the Ethiopians on their plan for currency and monetary policy independence from Britain, once the then currency agreement with Britain terminated in 1942.[65] At this meeting, the Ethiopians explained that,

> In January 1942, when the British conquered the Italian areas in Ethiopia, the British and Ethiopian governments entered into an agreement. … Under this agreement, the Ethiopian can promulgate no monetary measures without the expressed approval of the British. This proposal was not acceptable to the Ethiopians. Ethiopia desires to establish a currency commission in Ethiopia under Ethiopian control.[66]

Without Britain's knowledge, FDR's government had Ethiopian bank notes printed, keeping White's cooperation with the Ethiopians secret from the British. The Ethiopians wanted to start off conservatively, "with a reserve fund made up of a minimum of 75 per cent of gold, silver, and foreign currencies and a maximum of 25 per cent in Imperial Treasury debt" (Helleiner; 2014: 231), but in White's Treasury papers there is a paper "Ethiopia's Plan for a new monetary system", which argued for lower hard money reserves "to allow for an expansion in government financial operations or a higher level of domestic production" and for "the financing of the internal industrial development of the country".[67] White accepted a number of invitations to functions at the Ethiopian Legation, including one to celebrate Haile Selassie's birthday.[68] Likewise, the Egyptian chargé d'affaires in Washington thanked White "for the

[65]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 9, meeting in Mr. White's office with Representatives of Ethiopia on 15 May 1943, dated 22 May 1943.

[66]The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 13, File D4. Memo of meeting that took place between Ellworth and Price of the British Embassy in Washington and White of the US Treasury on 8 October 1942, dated 9 October 1942.

[67]Treasury Papers, Record Group 56, Office of the Assistant Secretary for International Affairs, 1934-1972, National Archives, College Park, Maryland, USA. First seen in Helleiner (2014: 231-232).

[68]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter accepting the invitation from the Ethiopian Legation to celebrate Selassie's birthday dated 12 July 1946.

friendly and cooperative spirit which has characterized our deliberations here" and invited White to a "dinner buffet" with them.[69] White also attended a dinner given by the Mexican ambassador.[70]

White's papers are full of warm correspondence with the representatives of developing countries, including an interview which he gave in Brazil while on holiday in 1939,[71] various correspondence with representatives of the Chinese government, including a note to the Chinese ambassador thanking him for the flowers sent to White for his 50th birthday,[72] and a letter from the Chinese monetary expert thanking White for all that he did to assist them.[73] His relationship with Soviet representatives was particularly close. Much has been made of his "spying for the Soviet Union", which in the McCarthy period of anti-Russian and anti-communist hysteria which characterised the post-1945 era was easy to paint as treasonous. But prior to 1945, the US-Soviet relationship was cooperative, particularly during the FDR administration. During Hoover's Presidency, "Stalin bought 60 per cent of the locomotives, two-thirds of the lathes, three-quarters of the foundry equipment, and almost all of the turbines exported by the United States." Thereafter, early in 1933, "Roosevelt gave Morgenthau the task of negotiating a new trade agreement with the USSR," (Rauchway; 2015:117).

White, like many in FDR's administration, was appalled by British (and European) colonialism and imperialism and saw the Soviet Union as a partner in post-WWII peace. In a warm letter to his daughter at university, he suggested that she "read some of the chapters in Buell's 'international Relationships' … many of his comments on imperialism are still pertinent. You

[69]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter of invitation from Head of the Egyptian Delegation to White dated 25 July 1945.

[70]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter of acceptance of the Mexican invitation from White to the Mexican Ambassador dated 6 February 1946.

[71]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, interview Mr Schmidt with White dated 28 September 1939.

[72]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Dr Hu Shih Ambassador of China dated 2 November 1939.

[73]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Dr T.C. Soong to White dated 28 July 1945.

might also read a chapter or so in a book by Hobson, written some thirty or forty years ago, called "Imperialism".[74] White's archive is full of evidence of the open and warm relationship that he had with Soviet officials, especially Professor F.P. Bystrov of the U.S.S.R. Embassy in the US. Much has been made of the gifts of alcohol and "expensive" carpets which, along with other correspondence, were sent to another Harry D. White in error. But White openly wrote to Bystrov on his official stationery in the friendliest way, thanking him for the gifts, while pointing out that they were sent to the wrong address.[75] Ten months later, White invited Bystrov, again in a typed letter on his official stationery, "to join me at dinner, at my home, on Saturday evening … I will call for you at your home, … about seven o' clock. Mrs. White wanted me to inform Mrs. Bystrov that the dinner will be informal, just a family affair".[76]

In a hand-written summary of global political economy, probably written towards the end of the 1930s, White concludes that "Russia is the first instance of a socialist economy in action, and it works".[77] While White socialised openly with Russian officials, and even met with Soviet intelligence agents, to the dismay of the spies, he was mostly interested in offering Russia monetary policy advice. Although the Soviet spies were only interested in stealing secrets, something White showed no interest in, "there was much enthusiasm in Moscow at the idea of having its monetary matters guided by an expert at the US Treasury" (Steil; 2013: 38). And so "[a]s a Soviet officer later wrote 'Our worker contacted (White) at Bretton Woods and asked him to explain a bunch of different issues for us'" (Rauchway; 2015: 194). White obliged. Eddie Bernstein, who worked closely with White, quipped, "There is no doubt that Harry was close to the Russians, and it was just like Harry to think that he could give advice to

[74]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Ruth White dated 1 November 1945. J.A. Hobson wrote *Imperialism* (1902) after being a journalist covering the Boer War in South Africa. He was appalled by the fact that the might of the British Empire was being employed in service of a handful of capitalists, and his book was an influence on V.I. Lenin.

[75]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Bystrov dated 26 March 1945.

[76]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from White to Bystrov dated 29 January 1946.

[77]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, undated paper on the global political economy in the hand of White, pages 10 and 11.

everybody" (Steil; 2013: 44). But White did not give advice to everybody. Given the large volume of evidence of social contact with most parts on the underdeveloped world, despite searching earnestly for it, I found no evidence of any socialising with the representatives of white-minority ruled South Africa. The only evidence of White meeting with South African delegates are four meetings which took place over three days, on the 19th, 21st, and 22nd of July 1943. The first meeting was from 15h30 to 17h20 on the 19th, the second from 10h30 to 11h30 on the 21st, and the third and fourth, totalling almost four hours, was from 10h30 to 13h20 and then again from 16h30 to 17h25. At all of these meetings, South Africa was represented by Dr. Holloway, and at the meetings of the 19th and the 22nd, White was accompanied by his deputy, Bernstein.[78] It was obvious from what he said of these meetings that Holloway felt that he had agreement from White that gold would be central to the new proposed international monetary system, and that its price would be adjusted if world production and trade increased sufficiently to warrant the increased gold price (see page 284).

"White would take orders from no one. He worked on his own terms. He joined no underground movements" (Steil; 2013:36). Soviet spy master turned FBI informant, Whittaker Chambers, "regarded White as the 'least productive of his contacts'. Chambers complained that 'since White was not a party member, but a fellow traveller, I could only suggest or urge, not give orders" (Rauchway; 2015:133). The Soviets misunderstood White's desire to cooperate with them, "Moscow continued (in 1944-45) to push their agent in Washington to get more information out of White but Zarubun (the Soviet agent) thought (White) too careerist and not politically interested in communism" (Rauchway; 2015:160). The Soviets spies could not understand White, a man who simply enjoyed working with developing countries.

Perhaps the best explanation for the anti-Russian hysteria that swept the US in the late 1940s and throughout the 1950s came in the form of letters from Harry Dexter White's then widow, Anne, and his daughter, Joan. Anne, replying to Mr Belfrage, who had written to her with sympathy at how White was being maligned in the media, responded in 1968, admitting that "I find it hard to look back twenty years and say truly what the 'American Inquisition' was for

[78]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, meetings and those in attendance listed in White's diary, July 1943.

me".[79] She mentioned that "a few weeks ago, The New York Times … stated that Harry Dexter White was the author of a plan to de-industrialize Germany after World War II and that 'a few days later he was found dead, the apparent victim of suicide by sleeping pills'",[80] not the first time that *The New York Times* was economical with the truth in a way that suited the US intelligence agencies, and not the last. She told of her own difficulty with the "American Inquisition":

> I was blacklisted, of course; jobs were closed to me ... There was a long time when I dared not contact friends in any way for fear of causing them embarrassment. ... Perhaps the thing that troubles me the most, and I am glad my husband cannot know it – is the role in World Affairs which the International Monetary Fund and the Bank for Reconstruction and Development are playing. These two institutions, which were primarily his creation, were intended, as I am sure that you know, to serve the world. They have become weapons of imperialism. How naïve we of the Roosevelt Era were![81]

Joan (White) Pinkham, Harry Dexter White's daughter, wrote in 2000 in a similar vein. She noted how Keynes and White both understood that international cooperation between sovereign states was the "key to post-war recovery, global prosperity, and long-term peace".[82] She made the point that the US Communist Party was a small and not particularly important organisation and that "in the American system, cases of espionage or subversion, when there

[79]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Anne White to Mr Belfrage dated 2 February 1968.

[80]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Anne White to Mr Belfrage dated 2 February 1968.

[81]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, letter from Anne White to Mr Belfrage dated 2 February 1968.

[82]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, 11-page recollection of the *"Harry Dexter White Case"* by Joan (White) Pinkham to "a young person" "19 years old" dated 20 September 2000, Page 5.

are credible grounds for indictment, are dealt with by the courts".[83] So why, she asked, did the Republican Senate feel the need for this "American inquisition"? "The target was never the Communist Party, which had minimal influence and was no threat to America, but progressive movements and voices throughout society".[84] They were a part of an "orchestrated attempt to discredit the previous Democratic administration and the New Deal as a whole … (and) provided the justification for near half a century of Cold War and two hot wars, in Korea and Vietnam … it killed national health insurance … was used as a weapon against organized labor. … Above all McCarthyism served to suppress dissent."[85] She ends on a positive note, hoping that "the recent demonstrations in Seattle and elsewhere against globalization, corporate power, destruction of the environment – and, yes, against the International Monetary Fund and the World Bank – signal the beginning of a long needed challenge to that right-ward drift".[86]

Did Harry Dexter White's view of the Soviet Union as an ally of the US, against imperialism, and as a partner to achieve world peace, constitute a betrayal of his country? James Boughton (2000) shows the lack of evidence and motive against White. As a scholar from the global South, I am not interested in this question. The enduring theme that emerges from his archives is that White wanted to destroy imperialism, and he worked tirelessly to advance the sovereignty and development of underdeveloped countries. He opposed the abusive practices of Wall Street banks in these countries, and in the US, and he brought all of this into his role as chief US negotiator at Bretton Woods.

[83]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, 11-page recollection of the *"Harry Dexter White Case"* by Joan (White) Pinkham to "a young person" "19 years old" dated 20 September 2000, page 9.

[84]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, 11-page recollection of the *"Harry Dexter White Case"* by Joan (White) Pinkham to "a young person" "19 years old" dated 20 September 2000, page 11.

[85]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, 11-page recollection of the *"Harry Dexter White Case"* by Joan (White) Pinkham to "a young person" "19 years old" dated 20 September 2000, page 10-11.

[86]Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, 11-page recollection of the *"Harry Dexter White Case"* by Joan (White) Pinkham to "a young person" "19 years old" dated 20 September 2000, page 11.

5.2.3. Bernstein on development money

Edward M. Bernstein was born in Bayonne, N.J., in 1905, and grew up in Queens, New York City. Bernstein did his undergraduate degree in anthropology, graduating from the University of Chicago in 1927, before finishing his doctorate in economics at Harvard University in 1931. He left academia to go to the Treasury in 1940, where he worked closely with Harry Dexter White (Obituaries in *The Washington Post* of 9 June 1996, and the *New York Times* of 10 June 1996).

Many years before he met Keynes to negotiate a new monetary system, Bernstein wrote *Money and the Economic System* (1935). Its ideas are remarkably similar to those of Keynes, all the more remarkable given that this was the view of a small minority. Bernstein, following Keynes, not only rejected Friedrich Hayek's view that "the best money for a community is neutral money" (Bernstein; 1935:21), but also that stability in value was the highest aim for money.

> Stability in the value of money may not entirely eliminate the periodic fluctuations in the volume of production and in the employment of the factors of production. While money of constant purchasing power is much better money than the world has hitherto had, it may, nevertheless, not be completely satisfactory.
>
> A satisfactory money must perform properly the functions of money. It must bring about the full employment of the available productive resources of the community. … And it must apportion the uses of the national income between consumption and investment to provide for the present needs and for the maintenance of the progressive efficiency of the factors of production. The money that performs these functions is a satisfactory money, whether it is of gold or of paper, whether it is of constant or of variable purchasing power. (Bernstein; 1935:22).

In *Money and the Economic System* he acknowledged that "Keynes has long distinguished himself as the principal advocate of a national rather than an international monetary standard" (Bernstein; 1935: 447), but went on to summarise the method of international co-operation amongst central banks that Keynes advocated in the *Treatise* (1930), with the Bank of International Settlements as a central player. Bernstein notes that "in 1923, Keynes advocated a plan somewhat resembling the gold value standard … (and) stabilization of the

price level as shown by an index number of a collection of goods, modified from time to time to maintain its representative character. The monetary system would be managed by the control of credit rather than thru gold" (Bernstein; 1935: 454). There are glimmers in Bernstein's approving account of Keynes's thought that made it into the Bretton Woods negotiations, and even the indexed gold standard idea proposal fleshed out by Fisher (1920), which was set out in the February 1944 letter from Bruwer to Keynes and later raised by Holloway at Bretton Woods.

In a defense of FDR's monetary nationalism, Bernstein notes "There is no reason … why independent national action cannot be taken while a country is not on the gold standard" (Bernstein; 1935: 462). Bernstein's final chapter makes the case for management of the monetary system (Bernstein; 1935; 463 – 484).

5.3. A Sound Money theorist – Edwin Kemmerer

5.3.1. Edwin Kemmerer and the emerging power of the United States

While Keynes and, to a lesser extent, White and Bernstein, came from a relatively comfortable middle-class background, which fostered a liberal approach, Kemmerer's upbringing, like that of Holloway, was more working class. Kemmerer was born in 1875, of a father who was "an official of the Lackawana railroad for 34 years".[87] He grew up in a strict religious home, "with firm parental advice, occasional corporal punishment with a small but memorable ram hide whip".[88] Whereas Keynes did not have to self-finance his university education, Kemmerer did, holding down a job and buying eggs wholesale and selling them door to door.[89]

Given his experience of pulling himself up by his bootstraps, Kemmerer can be forgiven for falling under the spell of Herbert Spencer, the social Darwinist who twisted the Bible's

[87]Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146, Box 277, Folder 5, page 4 of unpublished autobiography.

[88] Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146, Box 277, Folder 5, page 9 of unpublished autobiography.

[89] Kemmerer Papers, Seeley Mudd Archive, Princeton, MC146, Box 277, Folder 5, page 11 of unpublished autobiography.

message of God's concern for the weak and needy into one in which God helps those who help themselves. "The books I remember best are the writings of Herbert Spencer… which had great influence upon the youth of my generation."[90]

This is, of course, in sharp contrast to the intellectual influences that Keynes describes in "My Early Beliefs" (Keynes; 1949). Kemmerer himself, followed in Teddy Roosevelt's shoes and identified himself as a "progressive Republican" many times in his correspondence, said of the Philippines that "three centuries of Spanish rule had 'developed children, not independent self-reliant men'. Filipinos 'have yet to learn the lessons of political honesty, of thrift and of self-reliance'." (Rosenberg; 1999: 39).

Kemmerer soon earned a name for himself as one of the pioneers in developing the quantity theory of money. Keynes acknowledged this fact, placing Kemmerer's contribution as having come after that of the mathematician Simon Newcomb, who developed an equation of exchange between money and goods. Keynes (1930, Vol I: 233) gave Kemmerer credit for his work on the quantity theory, before Fisher's later expression of it in *The Purchasing Power of Money* (1911), (Keynes; 1930, Vol I: 233). In Fisher's (1911) Preface, he also acknowledged his indebtedness to Kemmerer for reading his script, and for his extensive statistics, testing the validity of the quantity theory. He was pleased to report that "most of the statistical results reviewed" confirm Kemmerer's own results in his book *Money and Credit Instruments in their Relation to General Prices* (1907) (Fisher; 1911: x).

Fisher put Kemmerer amongst the illustrious who thought that "the value of money depends on its quantity, including Locke, Hume, Adam Smith, Ricardo, Mill, Marshall, Fetter (senior, not F. W. Fetter), Kemmerer and most writers on the subject" (Fisher; 1911: 14). Aside from his work on theory, Kemmerer also undertook an impressive study of currency reform, most of it, with the exception of three years, prior to his appointment as "a government official". This was published in 1916, and used material collected by Kemmerer for "thirteen years" (Kemmerer; 1916: viii). It includes studies of India, Puerto Rico, the Philippines, the Straits Settlements (currently Singapore and Malaysia) and Mexico.

[90] Kemmerer Papers, Seeley Mudd Archive, Princeton Box 277, Folder 5, page 12A of unpublished biography.

If Kemmerer's early work was pioneering, thoroughly researched, and brilliant, earning him praise from Keynes (1930:233), and Fisher (1911), his book *Kemmerer on Money* (1934) was less of an achievement. Written in 1934, after the success of FDR's bold monetary policy of 1933 had begun reversing the devastating deflation of the previous three years, *Kemmerer on Money* (1934) shows no ability to appreciate what FDR had achieved, and thus came across as out-of-touch, and unable to think outside of a gold standard box that clearly had not assisted a devastated real economy. After three years of savage deflation up to 1933, and even after the US entered WWII in December 1941, commodity prices barely rose above their 1929 levels. *Kemmerer on Money* (1934) had warned of impending inflation, but eight years after Kemmerer predicted it, runaway inflation had not materialised. Despite his earlier warnings about the spectre of inflation not having materialised, Kemmerer continued, on twenty-five separate occasions throughout his (1934) book, to warn that debilitating inflation was on its way.[91] Far from inflation being the problem in 1934, as Romer (1996; fig 1) shows, FDR was only beginning to win his battle against deflation. And yet, Kemmerer started his fourth chapter with the question, "Is there inflation in the USA at the present time?" (1934:45). Three pages later, he grudgingly admits that "The greatest deflation through which the country passed from 1930 to February 1933, was at a time when it was on the gold standard, and was due primarily to a collapse in business confidence and a breakdown of the machinery of the circulating bank credit" (Kemmerer; 1934: 48), as if this deflation was some *force majeure* over which the government had no control.

Kemmerer did concede the success of FDR's reflation project,[92] "the physical volume of business in March 1934 was something like 70 per cent what it was in 1926 and there was an increase of about 28 per cent from February 1933 to the spring of 1934" (Kemmerer; 1934: 51). Kemmerer also raised an issue that he perceived would negatively affect his banker friends, namely that leaving the gold standard, and printing money, amounted to a "plan of gigantic confiscation ... that it would destroy private credit and make the value of the money unit depend upon the vicissitudes of war and of politics" (Kemmerer; 1934: 62). He used the

[91]This fearmongering about an inflation that did not come is repeated on pages 22, 26, 28, 32, 36, 41, 42, 55, 57, 59, 65, 66, 74 – 92, 173, 184, 187, 186, and 204 in *Kemmerer on Money* (1934).

[92]"Reflation" was a term brought into common use by the FDR administration, to describe the policy aim of bringing commodity prices back up to their pre-1929 levels, so that businesses, including farming, in the real economy could be profitable.

evidence of an increase in money supply during war time to "prove" the quantity theory proposition that inflation, even in times of war, is the result of needless, irresponsible printing of money. Holloway employed a similar criticism of the increase in South Africa of bank debt, and hence money, during WWI.

But the most rudimentary second look at war-time inflation shows that it was primarily demand driven, and not simply caused by the avoidable and "irresponsible" increase in the supply of money by government or the banks. The fact is that massive production is required for war, and money must be mobilised to achieve it. The demand for war production caused the explosion in money supply and inflation, and not the other way around. Kemmerer failed to grasp this in his account of US Civil War inflation (Kemmerer; 1934: 65). Kemmerer makes excuses for the previous failure of inflation to rise because "It usually takes considerable time for the inflation virus to work, as has been recently experienced in the United States" (Kemmerer; 1934: 77). Seven years later, it was still not a significant problem.

Kemmerer, in a chapter focussed on the relatively less interesting subject of a silver standard, deals with the fascinating issue of the purpose, and thus magnitude, of central bank reserves. Of course, Keynes dealt with the same subject in *ICF* (1913). At the time of *ICF*, the banking sector was relatively stable, and yet Keynes was acutely aware of its inherent instability, and the need for substantial central bank or monetary authority reserves, in order to perform the function of lender of last resort. Likewise, Keynes was equally aware of the danger of a run on the currency, and hence the need for even greater reserves for that possibility. And yet, two years after the greatest banking collapses in the history of the United States, Kemmerer saw no need for this form of reserve.

> A central bank's reserves should therefore not be looked upon principally as "backing" for the banks' note circulation and deposit liabilities, nor as a guaranty of the bank's ability to meet these obligations. All the assets of a central bank perform this function. A central bank's reserve is not concerned so much with the question of the ultimate solvency of the bank, as with the question of the machinery needed to maintain the gold value of the bank's notes and deposits … to the changing demands of trade … A dead gold reserve – namely, one which is not actively used for redemption purposes - is, therefore, practically useless, and performs no important function in the maintenance of the gold standard" (Kemmerer; 1934:114-115).

Two further themes emerge from *Kemmerer on Money* (1934). The first is the discussion of how the monetary phenomena of deflation and reflation affect Creditors and Debtors, and the second is a discussion of what he calls the "commodity dollar", an idea which Fisher had fleshed out in detail in his (1920) book *Stabilizing the Dollar*, and which Holloway would champion at Bretton Woods.

How inflation and deflation, and the monetary policies that affect them, impacted on Creditors and Debtors is one of the categories of subdivision discussed by Skidelsky (2018: 39), and is set out in figure 1 on pages 35 and 36. Kemmerer starts with an acknowledgement that "the volume of indebtedness to-day is enormous" (1934: 155), but he uses a "swings and round-abouts" argument about being up today and then down tomorrow. Bankers managed to trade with the headwinds of inflation from 1896 to 1929, "the debtor was benefiting by the instability of the dollar and the creditor was suffering" (1934: 159). In the post-1929 period, Kemmerer believed that it was now the debtor's turn to trade through the difficult environment. But an examination of the facts suggests that, after the 1907 banking crisis, Wall Street bankers were hardly "suffering", enjoying 22 years of relative prosperity in the period from 1907 to 1929.

By contrast, Kemmerer's now-you-are-up, now-you-are-down acceptance of the 1896 – 1934 cycles seemed to barely recognize the magnitudes of the misery, and unemployment between 1929 and 1933. Unbelievably, in his three-page section entitled "Who are the creditors", Kemmerer managed to name the most obscure types of credit, but excluded from his descriptions his friends on Wall Street.

Chapter X discussed "the commodity dollar", which he accurately attributed to Fisher. "Irving Fisher formulated a commodity dollar plan independently in 1911 and he, more than anyone else, is responsible for the subsequent development of the plan and for arousing public interest in it" (Kemmerer; 1934: 136). In essence, what Fisher proposed was similar to the proposal of Bruwer in February 1944, and of Holloway in June 1944 at Bretton Woods, having "the object of making the dollar always buy approximately the same quantity of goods, in other words of giving it a fixed value of purchasing power" (Kemmerer; 1934: 136).

In criticising Fisher's idea, Kemmerer suggested that, as a national monetary strategy, it would "bring great instability into our foreign trade" if the dollar did not bear a fixed exchange ratio

"with other currencies". Kemmerer then mentions what would become Holloway's mission at Bretton Woods, "[t]his difficulty would be largely overcome if the plan were adopted, on the basis of an international price index number, by all leading commercial nations of the world, but the prospect of such an international adoption is exceedingly remote" (Kemmerer; 1934: 144-145). Unfortunately for Holloway, Kemmerer's prophecy in this case was accurate.

Unlike Kemmerer, Keynes took a positive view of Fisher's indexed dollar in his *Tract* (1923), pointing out that when faced with a commitment to pre-agreed exchange rates and internal price stability, a country should first focus on an internal price stability that allowed the real national economy to be fully employed. "The pioneer of price stability as against exchange stability, Professor Irving Fisher, advocated the former in the shape of his 'compensated dollar' which was to be automatically adjusted by reference to an index number of prices without any plan of judgement or discretion" (Keynes; 1923: 187). Keynes's enthusiasm for Holloway's proposal at Bretton Woods would have come as no surprise to Holloway had he read the *Tract.*

In his personal relationships, whereas White was passionate about supporting the sovereignty of under-developed nations, Kemmerer was more comfortable with a level of racism and racial stereotyping. Kemmerer dressed up as a Ku Klux Klan member for a masquerade ball on the ship to South Africa on the 4th of December 1924 and he boasted that it "made a good impression". On board the ship for the return voyage, Kemmerer notes in a diary entry "January 21 to February 1", that "most of the people on board are Jews and/or bookmakers and everything is gambling. It is a pretty cheap crowd. At the masquerade ball I dressed as a Ku Klux Klan, but my three table companions who promised to do the same backed out for fear of criticism by Jews and Catholics on board. A Miss Aronson – Jewess – gave me hell in general for the Ku Klux Klan in US, as if I were responsible for it."[93]

Of course, all human beings are complex, and Kemmerer's racism and anti-Semitism were, first of all, a product of their time and place and also not without counter-examples. Kemmerer made a donation of $2.00 to the American Civil Liberties Union, which was acknowledged by them on the 9th of November 1920.[94] According to his unpublished autobiography, he "taught

[93]Kemmerer Papers, MC146, Box 293, Folder 3

[94] Kemmerer Papers, Box 35, Folder 6

the contribution to civilization made by Semitic peoples in religion, Greeks in art and Romans in law".[95]

It has already been shown that Keynes was distrusted by international bankers, and that White "was hated in the banking community as perhaps no other man in the United States has been hated" (Conway; 2014: 342). Kemmerer represents the polar opposite. Not only was he literally on the payroll of Wall Street, but that few economists can have socialised with Wall Street bankers quite as much as Kemmerer. In all of the numerous trips to New York he recorded in his diary, I did find a single one that did not include a meeting with Wall Street bankers while there.

One of the bankers with whom Kemmerer worked was Charles G. Dawes (Burk; 1985). Dawes, who was sympathetic to the interests of the House of Morgan, was chair of the Dawes Committee that came up with the Dawes plan for German finance and reparations in 1924. While the plan was in its early stages, Kemmerer was involved in crafting the currency and banking part of it. Kemmerer noted in his diary on the 9 June 1924,

> In Washington, saw Young and Munro. had about half hour conference with Secretary of State Hughes and put to him as strongly as possible case for gold standard for Germany and explained the origin of the non-gold clause in Dawes Report. … he said he had heard many enthusiastic reports on my work for the Dawes Committee and complimented me on "an excellent piece of work".[96]

De Cecco described reparations as "the most blatantly politicized part of the inter-war international finance" (de Cecco; 1985:52). Where Kemmerer's work was so crucial to Wall Street was in the fact that "the promotion of loans would have been very difficult had the US authorities not actively fostered the return, on the part of a large number of countries, to convertibility under the gold standard" (de Cecco; 1985:58). This return, or the promise of its arrival, facilitated "the huge flood of American investments which invaded the world in the 1920s and abruptly receded at the end of the decade" (de Cecco; 1985: 52). Secretary of State

[95]Kemmerer Papers, MC 146, Box 277, Folder 5

[96]Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146, Box 293, Folder 2, diary entry for 9 June 1924.

Hughes was liaising between Owen Young, at that stage involved in drafting the Dawes Plan, and Kemmerer[97]. While in London on his way back from the Kemmerer-Vissering Commission in South Africa, Kemmerer met with the American Banker Shepard Morgan (of the Federal Reserve Bank of New York), Sir Joseph Stamp, Director of the Bank of England, and other financiers. Stamp told Kemmerer that he had, "contributed more on the currency and banking part of the (Dawes) report than all the others working on the committee or for the committee in Paris and Berlin at the time, put together".[98] On a European trip in 1926, while surveying the results of these policies, he wrote in his diary "Posnan impressed me with its cleanliness, its solidity and activity and its absence of Jews".[99]

Dawes was not planning to remove the pain of the 1922-23 period of reparations on the threat of French invasion of Germany. "German reparations would begin at a very low level and Germany would be given a large international loan (by private bankers) to stabilise its currency and pay for some of the initial reparations. Over a four-year period, the reparation payments would rise to an annual sum of 2,5 billion Reich Mark (RM) by 1928 and be maintained at that level for an undetermined time into the future," said Dawes (McNeil; 1986:26). Seymour Parker Gilbert, who later was rewarded by being made an associate of J. P. Morgan, became the US-appointed Agent General of Reparations in Germany from October 1924 until May 1930. In over five years in Germany he learned no German and declined all invitations to absorb German culture (McNeil; 1986: 28-29). Finally, under Gilbert, a German bond issue was floated "at terms that were extremely lucrative for bankers as well as private investors. American banks bought the bonds at 87 (the Europeans took them at 87.5), the bonds were sold to the public at 92 and were redeemed at 105. (For Germany to receive 800 million RM, (she) had to issue bonds with a face value of 1 027 million RM" (McNeil; 1986: 33). Keynes's

[97]Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146,Box 293, Folder 2, diary entry for 27 June 1924 "Received telegram from Secretary Hughes authorising me to show O. Young my letter to him of June 24, re German currency plan and then sent letter to Owen Young".

[98]Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146, Box 293, Folder 2, diary entry for 5 February 1925.

[99]Kemmerer Papers, Seeley Mudd Archive, Princeton, MC 146, Box 293, Folder 2, diary entry for 6 August 1926. Perhaps Kemmerer might have been more "impressed' by Europe in the mid-1940s, once the transportation of Jews to the camps really got going.

German bond idea was finally implemented when Wall Street was able to milk it for maximum profit. As is often the case under conditions of austerity, as production and exports fell the only way to extract the reparations was to drive down incomes so that imports fell further than exports, forcing a surplus with which Germany could be forced to pay reparations. "But the cost was obviously immense, falling national income manifested itself by an intolerable rise in unemployment … Only with unemployment well above 10% could Germany balance trade. To develop any significant export surplus, unemployment in the range of 15% to 20% was required" (McNeil; 1986:109). Gilbert as "Reparations Agent also opposed any efforts to reduce taxes and lower interest rates, since both would make Germany less capable of paying reparations", arguing that high interest rates were necessary to encourage the foreign investment required to make reparations transfers (McNeil; 1986: 116).

Gilbert also stopped any move towards a Keynesian stimulus to alleviate the pain of the workers and the unemployed. In South Africa, anger at US extraction of war-debts from an exhausted Europe fuelled the trade war with the US. The US consulate, reporting from South Africa to the State Department, complained that "every possible argument … is used to influence people not to buy American merchandise. The question of War Debt is still the principal argument used to show the heartlessness, grasping nature and, practically, the dishonesty, of the American people. … The representative of an American automobile manufacturer … [noting negative comments by English-speaking businessmen said that] inevitably they end up with the question of the re-payment of the War Debts".[100] Hitler used resentment against international bankers effectively in his rhetoric, even if he mischaracterized them as predominantly Jewish, when many on Wall Street were gentiles, and anti-Semitic.[101]

On the 1st of May 1931, ten days before the collapse of Creditantsalt Bank in Austria set off the biggest number of bank failures in world history, Kemmerer was on a ship, reading Keynes's *Treatise* (1931) and commenting disparagingly, "it is suggestively bureaucratic. He knows apparently nothing about my South American, Chinese work, etc. and the lessons it has

[100]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 16 January 1929.

[101]US Secretary of the Treasury, Morgenthau (who, like White and Bernstein, was Jewish), noted of Wall Street bankers "They don't like the shape of my nose"; minutes of meeting dated 16 February 1945, Henry Morgenthau microfilm, quoted by (Rauchway; 2015:216).

taught. The book would be a useful manual in an academic utopia, but of little help in Peru or China or even in present day US".[102]

Kemmerer's faith in his own sound-money proposals, resting on the availability of liquidity from Wall Street banks, can perhaps be forgiven on the 1st of May 1931. But a mere ten days later, history would show Keynes's *Treatise* to be wise, and Kemmerer foolish in his predictions. Once the liquidity from Wall Street dried up, Kemmerer's model failed spectacularly, and Keynes's came into its own. The despatches from the US consulates in South Africa in the 1930s contain very few reports on financing opportunities for Wall Street bankers. Liquidity, which fuelled lending in the 1920s, had dried up, and after 1933 the US had an administration not interested in doing Wall Street's bidding.

5.3.2. Kemmerer's golden age, Wall Street, Washington, and the Kemmerer-Vissering Report

Before leaving for South Africa in November 1924 to lead the Kemmerer-Vissering Commission, Kemmerer "called at Dillon Read and inquired concerning retainer arrangements with them for advisory services for the new year".[103] A year later Hayward of Dillon Read met again met with Kemmerer, on the 19th of December 1925, regarding a potential loan to Poland, and told Kemmerer that he "had an absolutely free hand so far as Dillon Read were concerned".[104] The five years just before and just after the Kemmerer Vissering Commission saw Kemmerer at his busiest with international advising, and at pleasing Wall Street. Kemmerer had regular meetings with Dillon Read,[105] and with Lee Higginson,[106, 107] the Bank

[102] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 1 May 1931.

[103] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 6 November 1924.

[104] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 19 December 1925.

[105] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 11 October 1928.

[106] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 18 March 1926.

[107] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 11 June 1931.

of America,[108] Paul Warburg,[109] Randolph Burgess,[110] Snyder of the New York Federal Reserve Bank,[111] Dr Hjalmar Schacht, President of the Reichsbank "and his family in Berlin",[112] the New York Federal Reserve Bank, at which meeting Jay, Case (Wall Street Bankers), Snyder (Statistician at the New York Fed) and Burgess (Wall Street banker) were present.[113] On the 4th of February 1926, Kemmerer had a meeting with Dean Mathey and John Rovensky of the Bank of New York, during which he "had a frank talk with Rovensky over the demands being made on me by money making concerns for free advice".[114]

In the 1920s, while business was still brisk, Kemmerer was conscious of the fact that a conflict of interest existed between his being paid to advise foreign governments on monetary policy, whilst also working for Dillon Read. In 1928, Kemmerer worked to "obtain a loan for Ecuador. At stake for him personally was … a large commission … Nothing in the State Department records indicates that officials there (or in Ecuador) knew of the personal commission that Kemmerer would derive" (Rosenberg; 1999: 162). "As capital dried up, his missions would lose their luster (sic)" (Rosenberg; 1999: 163).

> In 1924 a new Polish government established a central bank, … and began a new search for foreign loans. Dillon Read, often the most adventurous of the large New York banking houses, became interested in Poland (the Dillon family was of Polish origin), and in January of 1925 arrived at an agreement for a large … loan … Poland agreed to

[108] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 2 May 1926.

[109] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 17 December 1925.

[110] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 14 November 1930.

[111] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 28 November 1930.

[112] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 11 January 1926.

[113] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 28 January 1926.

[114] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 4 February 1926. To put this in perspective, Kemmerer earned three times the annual salary of Clegg, the first Governor of the SARB, for essentially three months' work on the Kemmerer-Vissering Commission. His three weeks of work in South Africa paid almost twice as much as the annual salary of White at the peak of his career. An interesting contrast with the fuss that would be made over the few Persian rugs and bottles of liquor which White received from the Soviets.

> make Dillon Read its sole banker in future loans. … Dillon Read, Benjamin Strong of the [Federal] Reserve Bank, and Kemmerer together worked out an approach to the Polish problem. … At Dillon Read's suggestion, Poland duly invited Kemmerer to undertake a twelve-day investigation. He assured his employers that he was not an agent of Dillon Read but would be neutral in promoting Polish interests with any banking house. … Dillon Read also issued a public announcement that "there was absolutely no connection between this firm and either Professor Kemmerer or his mission". Actually, Kemmerer collected a retainer from Dillon Read both before and after the trip, and the bank advanced the cost of his steamship ticket and negotiated his contract with Polish officials. Not surprisingly, Kemmerer's mission recommended against a loan from Bankers Trust, advising that credit needed to be centralized in a single institution – Dillon Read (Rosenberg; 1999:177-178).

Shortly afterwards, Kemmerer records in his diary that:

> R de Bromer of E. H. Rollins called in the afternoon … He said there was a rumour in "the street" in New York that I was retained by Dillon Read & Co. I told him that I had done advising work for many banks and governments but had no connection with Dillon Read & Co or any other banking house that in any way or manner affected or touched my work[115].

On the 31st of August 1926, Kemmerer noted in his diary, "Received from Dillon Read notice of payment as participation 100 000 rts Amerada. Told Street exactly my relationship to Dillon Read". In April 1934, Kemmerer accepted a directorship of "a couple of investment trusts in which Dillon Read are interested". He was paid $100 per meeting.[116]

The opinion of the US consulates in South Africa in the inter-war period presents a fascinating window into the mindset of the US government at the time. At a dinner given by the American Chamber of Commerce in Johannesburg on the 9th of January 1925, Kemmerer "spoke of Turner's idea of the influence of frontier on American life and made the point that the American

[115] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 1 June 1925. This was another lie by Kemmerer.

[116] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entries 20 March and 17 April 1934.

frontier was now in foreign countries, in plains like South Africa. These people are the American frontiersmen of today".[117] Rosenberg (1999: 35-39) suggests that Kemmerer shared Teddy Roosevelt's romantic view of imperialism, inspired by the ethnic cleansing of the West[118].

The US consulate reported on the response to the Kemmerer-Vissering Commission Report that:

> The comments of the *Cape Times,* its fellow Opposition papers and the interests which they represent continue unfriendly to the decision to return to the gold standard independently of Great Britain, which was taken on advice of American and Dutch experts. They see danger ahead, unless Great Britain takes a like decision, and a deliberate purpose (at least on the part of the American expert) to help the American gold situation and make New York rather than London the world's financial center.[119]

"General Smuts' international activity unquestionably cost him votes at the last election. However vain the wish may be, South Africa would like to live to itself except for commercial contacts" said the US consulate in South Africa in 1925.[120] The consulate went on to discuss the shift in influence in South Africa, from Britain to the US:

> While I have not so far seen any direct mention of it in the press, a good deal is being said privately, about the preference which has been shown by the present South African government, when filling important technical positions, for men educated in the Unites States. The new Board of Trade and Industries, which has most important advisory

[117] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entries 9 January 1925.

[118] Adolf Hitler was also inspired by this ethnic cleansing to plan a similar version of it east of Germany in his autobiography *Mien Kampf* (Hitler; 1933: 63-64).

[119]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, page 5.

[120]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, January 1925, page 8.

> functions with regard to the tariff and economic policy generally, counts among its four members three who have spent some time with American ideas and ideals. Dr Bruwer, the chairman of the Board, a native South African of Huguenot descent, studied in the United States for three years, taking a Ph.D. degree in economics at the University of Pennsylvania. Dr de Kock, another member of the board, also studied in the United States and took a similar degree at Harvard. Mr Fahey, who represents the Labor Party on the board, lived for many years in the United States and Canada. Of the two foreign experts who were called to South Africa to advise the Government concerning a return to the gold standard independently of Great Britain, one was Professor E. W. Kemmerer of Princeton, and he took the lead throughout the hearings and in preparation of the report over his Dutch colleague, Dr Vissering.[121]

The US consulate noted that "In a press interview January 10 (1925) the Prime Minister (General Hertzog) said that … South Africa was not prepared to add to its obligations … Two days later it was authoritatively given out at Pretoria that South Africa would not personally be represented at the proposed Imperial Conference, the abandonment of which has now been announced from London".[122] The coordination of currency policy was therefore denied to Britain, and she was left with only the guarantees of Wall Street bankers, via Montagu Norman.

Meanwhile, back in South Africa, Kemmerer was writing an account of his charmed life as "Money Doctor" in the service of Wall Street in his diary. The first day of testimony was given by two representatives from the "Royal Mint, Pretoria" (Kemmerer-Vissering; 1925) on Thursday the 11th of December 1924. On the 12th of December 1924, Kemmerer "took the testimony of Trade and Industry Board represented by half a dozen men whose principal spokesman was Dr Priwer (sic) (Cornell, Harvard and Pennsylvania), Dr de Kock (Harvard), and Professor Freemantle also spoke".[123] This was followed by lunch with "Mr & Mrs Clegg

[119]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, January 1925, page 8. It was in examining this report in the National Archives in College Park in Maryland that I came upon Dr Andries Bruwer's name for the first time. This led to a further year of research and led to the dissertation becoming multi-dimensional.

[122]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, January 1925, page 7.

[123] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 12 December 1924.

at their beautiful home".[124] The following day, being a Saturday, Kemmerer and Vissering took a trip to "the big irrigation dam about 18 miles from here" (probably the Hartbeespoort Dam) with Hertzog and the "Minister of Railways" (Charles Malan). Hertzog "sidled up to Dr Vissering rather than me" wrote Kemmerer.[125] On the Sunday he "played golf all morning with Governor Clegg" and had lunch with him. In the evening, far from the influence of his Chairman of the Board, Professor Freemantle had dinner with Kemmerer "at the Pretoria Club. Seems like a capable and broadminded fellow, is strongly pro-Gold" reported Kemmerer.[126] Kemmerer, almost without fail, described those in favour of the gold standard in positive terms, and those against as lacking in mental facility.

In the mid-1920s, the reports on banking in South Africa, from the US Consulates in the Union to the US State Department, increased substantially. On 17 May 1922, the consulate reported on a letter from the Wall Street bankers "Lee, Higginson, & Co. offering a loan of £600 000 to the City of Pretoria, Transvaal".[127] On 27 June 1923, the US Consulate reported that a "loan of £700 000 has been authorized, £400 000 of which it is intended to obtain immediately by selling at 99 cents in South African bonds bearing 5 per cent in interest".[128]

It was a week into the Commission before the American Theatre owner of Johannesburg, I. W. Schlesinger, began his own wining and dining of Kemmerer. The Reports of the US Consulate to the State Department (probably discussed here for the first time) show that Schlesinger was not just an overly generous theatre owner. The hospitality that he lavished on Kemmerer during the Commission were no doubt connected to Kemmerer's role in facilitating the torrent of credit emanating from Wall Street at the time.

[124] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 12 December 1924.

[125] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 13 December 1924.

[126] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 14 December 1924.

[127]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 59, dated 17 May 1922.

[128]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 59, dated 27 June 1923.

On 21 April 1921, the US consulate reported to the State Department that "Offers of terms for floatation of loan of five million pounds sterlings [sic]. I W Schlesinger received authority to negotiate in [sic] behalf of South African government. Schlesinger and sons of New York [are the] American representatives of Schlesinger South Africa."[129] The audacity of Schlesinger was challenged that same day in a telephone conservation recorded as a memo by the US consulate, "Conversation with MR Greene representative of Lee, Higginson & Co. who desires to learn precisely the nature of Authority granted to Schlesinger in regards to the South African loans".[130] After it was established that Schlesinger did indeed have the mandate to negotiate a possible loan for the South African government with Wall Street banks, the US consulate reports on a proposal to Lee, Higginson & Co. and Guarantee Trust & Co. to come to the "(State) Dept. for conference, it being preferred to have such loan handled by an American institution".[131] On 30 May 1921, the State Department reported to the US consulate in South Africa "[r]egarding the call of Mr Schlesinger at the (State) Department and his statement to the effect that he believes it to be the ultimate advantage of American financial prestige to have South African loan handled through exclusively American channels and not through the National Bank of South Africa".[132] Schlesinger then went to New York to continue the negotiations on 30 June 1921.[133]

There were discussions about the concern that London financiers were aware of the danger of the loan being placed in New York,[134] and on the importance of such loans taking place via the

[129]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 42a, dated 21 April 1921.

[130]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 21 April 1921.

[131]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 21 April 1921 and 23 April 1921 respectively.

[132]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 30 May 1921.

[133]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 30 June 1921.

[134]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 20 August 1921.

US, as this would mean that substantial purchasing of materials for South Africa would take place in the US, rather than in Britain.[135] Finally came the news that the "South African government made inquiries several months ago regarding [an American] loan, but subsequently dropped them and has no intention of obtaining American loan".[136] A day later the reason was given that, "informal inquiries recently made in New York were dropped because the loan was impracticable except at prohibitive interest rate. So the South African government intend to continue issuing Treasury Bills".[137] Throughout September 1921, the US consulate reports are full of information about how the loans to the South African government were going to go through London and that American capital would probably participate in them, against the wishes of the State Department.[138] Schlesinger's name was absent from all these discussions but emerges again when the City of Johannesburg was in the market for a loan, which Lee Higginson & Co. noted that they are "discussing with the City of Johannesburg, through Mr I W Schlesinger".[139] On 24 November 1922, the US consulate in Johannesburg reported that "British banking houses are able to float loans at only 1 or 2% below the terms of American houses".[140] The US consulate remained concerned about continued loans to South Africa coming from London, attaching an article from *The Star* with the headline "Spending where we borrow".[141]

[135]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 23 August 1921.

[136]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 26 August 1921.

[137]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 31 August 1921.

[138]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 29 August 1921, 14 October 1921, 15 October 1921, 16 October 1921,

[139]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 5 October 1921.

[140]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 24 November 192230 June 1921.

[141]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51. Memo, dated 18 November 1921.

With this attempt, and apparent failure, to insert himself between a Wall Street loan and a borrowing South African government, Schlesinger now wined and dined Kemmerer like royalty. On 18 December 1924, Kemmerer "dined at a hotel as guests of Mr Schlesinger" along with other important dignitaries; "he gave us a good time" reported Kemmerer.[142] Then on Saturday, 20 December, Kemmerer lunched at the Automobile Club with Schlesinger, then marvelled at his enormous property development, then had supper at the Carlton Hotel, followed by a show at the theatre.[143] On New Year's Eve, it was dinner with Schlesinger, then a dance at the Carlton Hotel, at which Kemmerer had a "gay time" and retired at 3 a.m.[144] When, in contrast, he was invited for "tea at 8 o'clock at the home of Professor Holloway, and there I met a large group of young economists and statisticians", Kemmerer mentions his disappointment at not getting dinner. Holloway was, and remained, the opposite of Schlesinger, a humble academic on a humble academic salary.[145] According to a later report from the US consulate in Pretoria, "Mr I W Schlesinger (was) a wealthy and very able American who dominates the South African theatrical and cinema world and who exercises no small amount of political influence in all parties".[146]

There was a luncheon at the Pretoria Club hosted by a fellow gold standard fanatic, Samuel Evans, on 29 December 1924, at which Kemmerer explained the Dawes Plan.[147] Kemmerer's partisanship was on full display when he interviewed J. P. Gibson, the Senior General Manager of the Standard Bank of South Africa, the longest-standing and biggest bank in the land, which Kemmerer treated as an illicit money-making scheme, opposing the gold standard for selfish reasons (Kemmerer-Vissering; 1925:208). Kemmerer suggested that Standard Bank was

[142] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 18 December 1924.

[143] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 20 December 1924.

[144] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 31 December 1924.

[145]Holloway's name does not appear in Kemmerer's guest book at his home, although we know that he did stay with Kemmerer in 1932. The guest book is filed in the Kemmerer Papers, MC 146, Box 4, Folder 7.

[146]The US Treasury Papers, National Archive, College Park, Maryland, RG59, 848a/0322, report of US consulate to State Department dated 9 January 1931.

[147] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 29 December 1924.

making improper profits on its London balances (Kemmerer-Vissering; 1925:210), and arguing that London should be cut out of its middleman role, as far as directing finance from New York to South Africa (Kemmerer-Vissering; 1925: 213). Kemmerer failed to mention the fact that interest rates on offers from Wall Street finance had been substantially higher than those of London. When Gibson (correctly) predicted that gold would flow out of the country in the event of a monetary disturbance and a break in the synergy of the British and South African pound, Kemmerer responded to him with appeals to authority, and by relying on Hume's price specie flow mechanism. With hindsight, Gibson's warnings were prophetic, and Kemmerer's confidence in the gold standard supported by Wall Street liquidity a spectacular failure, but at the time Kemmerer wrote in his diary of Gibson being "full of old heresies and more forceful than sound, … the table pounding" variety of "practical businessmen".[148]

On his journey back to the US from South Africa, Kemmerer "had lunch at the Hong Kong and Shanghai Bank as a guest of Sir Charles Addis. There were about ten prominent English financiers present including Baring".[149] On 19 February 1925, Kemmerer wrote to Dillon Read: "I shall drop in and see you in the early future, and talk over certain matters in which we are mutually interested, particularly the situation as I found it in South Africa".[150] On 24 February 1925, Dillon Read sent him a cheque for $3 000.00 "in connection with the arrangement made whereby we are to have the benefit of your views in regard to foreign matters during the current year".[151] Rosenberg noted that "Kemmerer, as usual, tried to interest Dillon Read in loans to South Africa after his return, but the bankers felt there would be little market for South African bonds in the United States." (Rosenberg; 1999: 308).

With Wall Street awash with liquidity at the time, Kemmerer was at the height of his arrogance, but after 1933, once FDR had come to power and Kemmerer's fellow Nassau Club member had been told by FDR's political advisor, Louis Howe, that "we don't want his [Kemmerer's]

[148] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 22 December 1924.

[149] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 6 February 1926.

[150] Edwin W. Kemmerer Papers, Princeton University, Box 77.

[151] Edwin W. Kemmerer Papers, Princeton University, Collection MC146, Box 77.

brand of advice",[152] it was a politically castrated Kemmerer that became the "table pounder", not to be taken seriously.

Just after Edwin Kemmerer started interviewing witnesses in Johannesburg, Norman was finally convinced by Benjamin Strong (Chairman of the Federal Reserve) to come to New York for two weeks, in order to hear from the American financial elite their opinion of and support for Britain's return to the Gold Standard. Norman had not been in New York for two years, but managed to "slip out of Britain undetected, like a shadow in the dead of night" (Ahamed; 2009: 225). He was met on the quay by Benjamin Strong on 28 December 1924 and taken to Strong's new apartment "in Maguery, an elegant apartment hotel located at Forty-eighth and Park Avenue, insisting that Norman stayed with him. Over the next two weeks, during the day and in the evenings, Norman was subject to an intense campaign by the Americans, especially by Strong and the Morgan Bankers, to get the pound back on gold as soon as possible" (Ahamed; 2009: 226-227). The fruit of this meeting was that, in exchange for an undertaking that Britain would return to the Gold Standard, the New York Federal Reserve promised $200 million of reserves and J.P. Morgan, the investors in Ernest Oppenheimer's Anglo-American, gave "a further tentative commitment of $300 million" (Ahamed; 2009: 228). Montagu Norman returned from New York with loan guarantees to support Britain's return to the Gold Standard, with the only condition being his remaining governor of the Bank of England.

Strong wrote a letter to Norman on 15 January 1925 specifically to apologise for keeping him cooped up and bombarding him with Americans urging Britain to return to gold. "I fear that at times I was an inconsiderate host on the one hand, in keeping you too busy, and on the other hand, in giving you no opportunity for a little recreation while here".[153]

On 8 January 1925, the drafts of the Kemmerer-Vissering report were complete and the following day the report was submitted by Kemmerer to the South African government. Two days later, Montagu Norman boarded SS France in New York and returned to London.

[152] Kemmerer Papers, MC 146, Box 291, Folder 4, note by Kemmerer's son Donald on being told this by a friend who attended the address by Louis Howe at the Nassau Club in Princeton as a note in Kemmerer's 1933 diary.

[153] Benjamin Strong Papers, New York Federal Reserve, File 1116.5

> Addis (Charles Stewart Addis was a Director of the Bank of England from 1919-1931) noted in his diary 8 January 1925, 'He (Norman) has evidently swung around to an early return to the Gold Standard.' On the 21st of January 1925, after Norman's report to the committee of Treasury, Addis wrote, 'He is now as much in favour of an immediate return to the Gold Standard as previously he was against it' (Sayers; 1976, Volume 1: 141).

Kemmerer and Vissering left Pretoria for Cape Town on 12 January 1925, and Montagu Norman arrived in London approximately a week later. Norman suffered from anxiety as a result of being effectively bullied into returning Britain to the Gold Standard at a time when it was not convenient to do so, and when the British real economy was going to suffer from this decision. For approximately the first two weeks of March 1925, Norman went on holiday to the south of France to recover from this stress. (Ahamed; 2009: 233).

On 28 January 1925, having received the news of the Kemmerer-Vissering report, Norman wrote to Clegg, "Close co-operation between Central Banks will become more important than ever". He showed himself to be fully aware of the point that Kindleberger (1987) and Eichengreen (1992) made about the importance of the international co-operation of central bankers and monetary authorities in difficult economic times.[154]

On 18 February 1925, Clegg replied to Norman in prophetic words:

> It would be, of course, most interesting to see whether Edwin Kemmerer's theories would actually stand the strain of practice, I should prefer not to be made the *corpus vile* of the experiment … I think our friend Vissering was rather hustled by Kemmerer. In fact his recommendation that South Africa should go back to the absolute Gold Standard was in such glaring contrast to his attitude in Holland, that I could not help pulling his leg when he came to say goodbye to me. I said, 'I presume, Doctor Vissering, that when you go back to Holland, you will at once take steps to fix a date

[154] Montagu Norman Papers, Bank of England Archives, File OV37-21m, letter from Norman to Clegg dated 28 January 1925.

for Holland's return to gold?' He replied, 'Ah! That depends on the Bank of England.'[155]

Churchill, then Chancellor of the Exchequer, was by no means decided on the question of Britain's return to the Gold Standard. With the news of the Kemmerer-Vissering report, and following Norman's conversion to the cause of an urgent return to gold, Churchill invited the leading parties in the controversy for supper at 11 Downing Street on 17 March 1925. "Norman, just back from the Riviera, was not invited" (Ahamed; 2009: 233). The "Treasury view", supported also by the Bank of England, was represented by Niemeyer and Bradbury, and the position against the Gold Standard was represented by Keynes, and McKenna, who was Keynes's preferred banker for the proposed South African gold-selling organisation which Strakosch and Keynes hoped to form. Keynes and Reginald McKenna stressed the point that the discrepancy between British and American prices was nearer 10% than the 2.5% indicated by the exchanges, and that domestic prices would therefore have to be deflated by 10%. This would mean unemployment and an attempt at a downward adjustment of wages which would cause major industrial unrest in the heavy industries. It was much better, therefore, to try to keep the domestic prices and nominal wage rates stable and allow the exchanges to fluctuate for the time being. Churchill then turned to McKenna, who had occupied the position of Chancellor of the Exchequer before and asked him which decision he would make. McKenna buckled: 'There is no escape; you have to go back; but it will be hell.'…. On the 20th of March (1925) Churchill decided to lift the gold embargo in his budget statement (Skidelsky; 1992: 199-200).

1925, the year that commenced with the Kemmerer-Vissering Report, was a particularly active year for communications on banking by the US consulate General. The first, on 14 January 1925, was "Reports concerning Developments in finance and banking in South Africa".[156]

[155] Montagu Norman Papers, Bank of England Archives, File OV37-21, letter from Clegg to Norman dated 18 February 1925.

[156]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51, dated 14 January 1925.

Then came the Kemmerer-Vissering Report on 20 January 1925,[157] 15 days after the government printer in Pretoria printed 2000 copies, and four days after the government accepted the recommendations of the Report on 16 January 1925 (Dalgaard; 1981:85). On 22 July 1925, the US consulate report noted that a "State loan is about to be floated in London by SA government and New York will not be approached before autumn".[158] On 25 September, the US consulate advised that "if South Africa needs permanent financing and American money to do it with, it would probably have to come here (to South Africa) to do it".[159] On 5 October 1925, the US consulate reported on the activities of a "Mr Kingsley Jarvis, Special agent of Equity Trust Co. of New York, who is in South Africa investigating the possibility of participation of the company in … Proposal for establishment of branch of equity Trust Company in South Africa".[160]

On 3 March 1925, Kemmerer lunched with Paul Warburg, and then had a meeting at the New York Federal Reserve. Warburg "congratulated us on report re. South Africa and said it was a masterly report and he believed every word of it".[161] On 5 November 1925, Kemmerer met with Hayward of Dillon Read, to "talk over Colombian, Chilean and South African situations"[162]. Kemmerer was again paid by Dillon Read on this occasion[163].

Twenty years later at Bretton Woods, White would have no contact with the South African representatives, beyond the meetings that he was duty-bound to have, preferring to socialise

[157]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51, dated 20 January 1925.

[158]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51, dated 22 July 1925.

[159]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51, dated 25 September 1925.

[160]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51, dated 5 October 1925.

[161] Kemmerer Papers, MC 146, Box 293, Folder 3, diary entry 3 April 1925.

[162] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 5 November 1925.

[163] Kemmerer Papers, MC 146, Box 293, Folder 2, diary entry 5 November 1925.

with the underdeveloped world. Kemmerer, on the other hand, remained very friendly with the South Africans who had entertained him so lavishly in late 1924 and early 1925.

On 17 December 1925, he met with the South African Trade commission in New York, after having lunch with Paul Warburg.[164] On 1 January 1931, C S Richards, then a lecturer at Natal Technical College, wrote to Kemmerer to ask him to put in a good word with Professor Pigou, of Cambridge University, who was on the selection committee of Natal University[165]. The post of Professor of Economics had become available, and Richards was applying. Kemmerer, remembering Richards' commitment to the gold standard during the Kemmerer-Vissering Commission, duly wrote a letter of recommendation to Pigou, urging him to vote for the appointment of Richards.[166] Richards got the post, and thanked Kemmerer.[167]

5.3.3. Kemmerer in the era of the Banking crisis and the New Deal

Britain was forced off the gold standard on 19 September 1931, and the South African government was forced to provide emergency and secret assistance to the banking sector, just as Gibson, Strakosch and Clegg had predicted. At the end of 1931, Clegg finally got his wish to return to England and he was made a director of the Bank of England in 1932. Clegg had maintained his position that the South African currency should be linked to Pound Sterling from his appointment as Governor of the SARB in 1921 onwards, and he had seen his dire warnings of a sole gold standard materialise. Clegg took a position on monetary policy that suited Britain, but was also good for South African farmers. The Governor that followed him, Johannes Postmus, took a position for the gold standard, despite his witnessing the disaster of Britain being forced off the standard first hand.

With capital draining from South Africa, the government put a proposal to the Standard Bank and Barclays Bank, that the banks should contribute a total of £5 million and the government £5 million into a Sterling "Pool" to be available to the banks to meet a drain at the time of the

[164] Kemmerer Papers, MC 146, Box 293, Folder, entry of 17 December 1925.

[165] Kemmerer Papers, MC 146, Box 44, Folder 1, letter from Richards to Kemmerer dated 1 January 1931.

[166] Kemmerer Papers, MC 146, Box 44, Folder 1, letter from Kemmerer to Pigou dated 14 April 1931.

[167] Kemmerer Papers, MC 146, Box 44, Folder 1, letter from Richards to Kemmerer dated 10 June 1931.

overvalued South African Pound still on the gold standard. (Henry; 1963: 240). Standard and Barclays made their contribution. The South African government turned to Kemmerer to facilitate their £5 million contribution to the Sterling "Pool" which they had proposed. A mere twenty days after Britain was forced off the gold standard, P. R. Botha, representing the South African government, sent Kemmerer a telegram, "Desire urgent interview on behalf of [the South African] government. Please collect or telephone best time and place to suit you".[168] The South African government were to discover that the seamless world of "modern" banking that Kemmerer guaranteed his "money doctor" patients had evaporated, and the pro-cyclical, destabilising, banking system that Keynes described in *ICF*, and in the *Treatise*, was now the painful presenting reality. Although politically still powerful, Kemmerer was powerless to assist the South Africa he was so fond of. Wall Street no longer had the liquidity. Creditanstalt Bank had collapsed four months earlier, and a world-wide chain-reaction of bank runs was about to bring the collapse of thousands of banks throughout the world. The system that Kemmerer insisted supported South African's return to the gold standard had vanished into thin air. Kemmerer's stating of the obvious is missing from his papers, but clearly he told Botha that no finance was to be had. Philip R. Botha responded to Kemmerer as if he still occupied his throne as the great arbiter of Wall Street finance to foreign countries, sending him "a cheque for the sum of $200", and fawned, "I wish to avail myself of the occasion to express my great appreciation at having had the opportunity of making your personal acquaintance and for the valuable guidance and assistance I received from you on behalf of my government".[169] Botha was the only South African official to misread the monetary and political situation that had shifted so radically in the world, and particularly in the US, starting with the collapse of Creditanstalt Bank. Needless to say, there was the inevitable feedback from Kemmerer that "I am exceedingly sorry that conditions were such as to make it impossible to carry through the plan".[170]

But Hertzog's government, following stiff-necked advice from Postmus, Holloway and Havenga, refused to devalue the South African pound by leaving the gold standard, causing additional hardship to farmers and others, and by January 1932, Minister Eric Louw was

[168] Kemmerer Papers, MC 146, Box 44, Folder 4, Telegram from P R Botha to Kemmerer dated 9 October 1931.

[169] Kemmerer Papers, MC 146, Box 44, Folder 1, letter from Botha to Kemmerer dated 10 November 1931.

[170] Kemmerer Papers, MC 146, Box 44, Folder 1, letter from Kemmerer to Botha dated 14 November 1931.

telegraphing Kemmerer, seeking advice about the financial mess that South Africa now found itself in as a result of following Kemmerer's earlier advice.[171] Again, the once mighty Kemmerer was now powerless. And in his powerlessness, he was to receive a letter from his friend, and fellow gold-standard fanatic, in South Africa, Samuel Evans, on 18 January 1932, describing this disastrous state of affairs, but without the slightest bit of self-reflection on the fact that his faith in the Gold Standard had been a mistake:

> The heavy fall in wholesale prices in the past two years, coupled with the suspension of the Gold Standard by Britain, Australia and other countries has created a disastrous state of affairs for all South African producers for export, excepting the gold mines, and even the gold mines are severely handicapped as compared with the gold mines in Australia and other countries. The net prices our farmers receive for what they export are about 20% below the pre-war level, while their cost of production and the prices of the things they have to buy are anything from 20-50% higher than in 1910-1914.[172]

Evans then sent Kemmerer a cutting of the article by Bruwer in the *Rand Daily Mail*, attacking the gold standard in South Africa, and pointing out, in the style of Keynes, why this "sound money" policy was turning out to be such a disaster.[173]

In 1943, the SABC asked Kemmerer, to do a broadcast "to the Union of South Africa on *Gold and International trade".* Kemmerer worked on this broadcast from the 22nd to the 24th of September 1943.[174]

In early 1933 Kemmerer seemed to have no inkling that the Wall Street-centric world of power that he had taken for granted was over. The fact, which Kemmerer seemed to ignore, was that FDR had won a crushing defeat over Hoover. The electorate was, by that stage, two years into

[171] Kemmerer Papers, MC 146, Box 44, Folder 4, letter from Kemmerer to Louw dated 14 January 1932, telegraph from Louw to Kemmerer dated 18 November 1933, and from Kemmerer to Louw dated 19 January 1932.

[172] Kemmerer Papers, MC 146, Box 44, Folder 5, letter from Evans to Kemmerer dated 18 January 1932.

[173] Kemmerer Papers, MC 146, Box 44, Folder 5, letter from Evans to Kemmerer dated 10 February 1932.

[174] Kemmerer Papers, MC 146, Box 290, Folder 2, 1943-45 diaries, entries 22 September 1943 and 24 September 1943.

the biggest banking crisis in US history, and three years into the biggest stock market crash in US history, sick and tired of the economic policies that Kemmerer supported, and Hoover implemented. The rejection of Hoover was total. In the November 1932 election, FDR won 22 815 539 votes to Hoover's 15 759 930. FDR had won 42 States and lost only six. The electoral college tally was 472 to 59. "The Democrats had won an almost two-to-one lead in the Senate and nearly three-to-one command in the House of Representatives" (Black; 2003: 249-250). After FDR got the results, he singled out Louis Howe and Jim Farley as the two most active members of his election team, telling them that they were "the two people in the United States, more than anybody else, who are responsible for the great victory" (Schlesinger; 1957: 438-439).

Three months after his crushing defeat, and less than a month before he was due to leave the White House, President Hoover summoned Kemmerer to assist him with monetary policy advice. Kemmerer recorded in his diary, "Spent the day in Washington. Was with President Hoover from 9am til 11. He wanted my advice on his forthcoming Lincoln Day address in New York".[175] Almost two months after FDR had been inaugurated, Kemmerer "received from ex-President Hoover a most interesting letter in which he explained how he had tried and failed to get F. D. Roosevelt, after his election, to join him in a vigorous public statement in favour of a strong sound money policy and how Roosevelt refused".[176] The political context of Hoover's breath-taking arrogance is given above – "he thought Roosevelt might at his behest abandon 90 per cent of his own 'so-called new deal' and adopt the program the people has already rejected in the election" (Schlesinger; 1957: 477).

But what made Hoover's and Kemmerer's behaviour all the more outrageous was what was happening to the banking sector at this time. While Hoover and Kemmerer were warning against "inflationists", the biggest bank collapse in world history was underway. "At the start of 1929 in the United States about 24 000 banks had been operating; by the start of 1933, only 14 000 remained" (Rauchway; 2015: 32). But not only did Hoover and Kemmerer refuse to change policy, despite this massive collapse, but as the bank run escalated in the days before FDR's inauguration, Hoover refused to even call a bank holiday to stop the carnage. "On

[175] Kemmerer Papers, MC 146, Box 291, Folder, diary for 1933, entry for 8 February 1933.

[176] Kemmerer Papers, MC 146, Box 291, Folder, diary for 1933, entry for 24 May 1933.

March 3, (the day before the inauguration), Roosevelt met Hoover together with officials from the Treasury and the Federal Reserve. … The Hoover people reported that depositors had withdrawn over a million dollars in gold that day alone and the banks can't stand it. That night Hoover's chair of the Federal Reserve Board, Eugene Meyer, tried one last time to get Hoover to declare a national bank holiday. He would not" (Rauchway; 2015: 36). But Hoover's attempt to get FDR to abandon the economic policy that the voters had overwhelmingly approved came on 28 January 1933, just as Hoover's failed policies were causing the worst of the bank failures. Needless to say, Kemmerer's diary reflects none of these thousands of banks collapses and, in the face of massive, and economically debilitating deflation, his decades-old obsession with inflation continued.

The inauguration took place on the 4 March 1933, and FDR made his position clear:

> The Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men … Faced by the failure of credit they have proposed only the lending of more money. Stripped of the lure of profit by which to induce to exhortations, pleading tearfully for restored confidence. They know only the rules of a generation of self-seekers. They have no vision and when there is no vision, the people perish. The money changers have fled from their high seats in the temple of our civilization. We may now restore the temple to the ancient truths. (Black; 2003: 271).

He might have been addressing Kemmerer personally. Two months later, Kemmerer attended a talk by FDR's right-hand man, Louis Howe, at the Nassau club in Princeton. He noted in his diary "a weak address which in form of praise showed up why the President is appointing as his economic advisers young and inexperienced men of the more radical type".[177]

What Kemmerer did not realise is that when Howe was asked why the (new) administration did not call in Dr E. W. Kemmerer for advice, Howe responded "Yes, we know about him, but

[177] Kemmerer Papers, MC 146, Box 291, Folder 4, 1943-45 diary 1933, entry 10 May 1933.

we don't want his brand of advice".[178] Kemmerer's exile from the corridors of power had begun.

On the evening of 18 April 1933, remembering the conversation that he had with FDR, a traumatised James Warburg[179] said, "The first thing the president did was inform us, with a chuckle, that we have definitely abandoned the gold standard and that this would be announced tomorrow. … The Treasury would no longer license gold to leave the country" (Rauchway; 2015: 64). Warburg, like Kemmerer and other banker economists, warned of "uncontrolled inflation and complete chaos" (Rauchway; 2015: 64). But what they failed to appreciate, just as Holloway, Havenga, and Hertzog failed to appreciate in 1932, was that the crisis was one of deflation, not inflation. In both the US and South Africa, farm prices had plummeted. Roosevelt "kept his cool. He pulled a ten-dollar bill out of his pocket. … 'Ha' he laughed. … 'How do I know that's any good? The fact that I think it is, makes it good'" FDR replied to his own rhetorical question (Rauchway; 2015: 65). With the devaluation of the dollar, farm prices started to rise. "The index of industrial production rose from 56 to 101 from March to July 1933. In the same period farm prices moved from 55 to 87 and the New York Stock Exchange rose 85 per cent" (Black; 2003:302). Overall deflation of 5.11% still haunted the US economy for the year 1933, it was considerably better than the 9.87% deflation of 1932, but still nowhere near the inflationary nightmare that Kemmerer and Warburg had anticipated. On 31 October 1933, Kemmerer attended a dinner given by a committee of the American Bankers Association (hereinafter ABA).[180] On 7 November 1933, he gave a lecture, "my subject was inflation";[181] nine days later he met with "practically all the presidents of the big New York City banks and

[178] Kemmerer Papers, MC 146, Box 290, Folder 2, 1943-45 diaries. This story was inserted, as a separate piece of paper, into the diary, by Kemmerer's son Dr Donald Kemmerer, who also became an economist, and who was told the story by another Nassau club member who was present. The incident failed to make it into Kemmerer's diary as an entry.

[179] Son of the legendary banker Paul Warburg. James Warburg was, for a time, an advisor to FDR (see Black; 2003: 283-294 and Rauchway; 2015: 60-61).

[180] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 31 October 1933.

[181] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 7 November 1933.

formed the "Economist's National Committee" that would represent their interests.[182] On 24 November 1933, he again "spoke on inflation before the ABA legislative committee".[183]

No matter how often they met, however, Kemmerer and his Wall Street friends no longer controlled government. At the London Economic Conference, British, French and other delegates were desperate to get capital flowing internationally, by an agreement on exchange rates. FDR, following the logic set out in Keynes's *Tract* (1923), was determined to focus nationally first, first on internal balance – getting farmers profitable and unemployment down, before committing to external balance that suited international finance. Most commentators were appalled, but "Keynes was in a distinct minority when he declared that the US president's action had been 'magnificently right'" (Black; 2003: 300).

With the New Deal administration committed to a national development money paradigm, and with FDR's re-election in 1936, and again in 1940, Kemmerer continued his "table pounding" on behalf of a toothless opposition. He added the "reintroduction of gold into circulation" into the Republican manifesto, a manifesto that condemned "the New Deal … [as] "un-American". In a sign of the "American Inquisition" that was to come, it also pledged to "get rid of such borers from within".[184] He attended the Republican National Convention which was "a chilling experience",[185] but his Candidate, Wendell Wilkie, was defeated in FDR's third victory in November 1940.

On 13 April 1944, Kemmerer was a part of a "special group to consider the Keynes and White Monetary Proposals"; also present were L. I. Estrin, Vice President of Irving Trust Company, New York, Albert Hahn, an economist popular with the Mises Institute who opposed the

[182] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 16 November 1933.

[183] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 24 November 1933.

[184] Kemmerer Papers, MC 146, Box 289, Folder 2, "Suggested currency plank for the Republican Party dated 7 June 1940.

[185] Kemmerer Papers, MC 146, Box 291, Folder 4, entry 27 June 1940.

Bretton Wood Agreement on Austrian lines, Ludwig Mises, and other banker-friendly economists.[186]

As a sign of just how far from influence Kemmerer had fallen, Kemmerer could not even get the Republicans to endorse the return to the gold standard in his proposed "Monetary plank" of the manifesto. Five days before the Convention was due to start, Kemmerer was already in Chicago, and his draft started with "The Republican Party affirms its belief in the gold standard". On the day of the start of the convention Kemmerer noted with disappointment

> A mere pledge to maintain the value of the American dollar would be highly ambiguous. Is it its wholesale purchasing power, gold value, or what? It would play into the hands of Keynes and other radical managed-paper-money groups, it would weaken confidence in the dollar and would be a weasel plank with capital letters.[187]

On the last day of the convention, the wording of the monetary "plank" of the Republican Party revealed that Kemmerer had lost the battle.[188] He could not even get the Republicans, the party about to lose the election again, to agree to his gold standard ideas. For the fourth election in a row, the Republican candidate lost to FDR in November 1944. Kemmerer's transformation to a powerless "table pounder" was complete, and he died on 16 December 1945. At his funeral, one of the pallbearers was his close friend, F. A. Fetter, who, with Kemmerer, had been opposed to the suspension of the gold standard, and the related devaluation by FDR.[189] Both fought for a restoration of the old gold standard. F. A. Fetter died three years after Kemmerer. Fetter (Snr) and Edwin Kemmerer died sound-money men. It was left to the next generation of the Fetter line to embrace a wider view on monetary policy and the arguments of the anti-

[186] Kemmerer Papers, MC 146, Box 290, Folder 3, Invitation dated 13 April 1944.

[187] Kemmerer Papers, MC 146, Box 290, Folder 2, entry of 30 January 1934.

[188] Kemmerer Papers, MC 146, Box 290, Folder 3, The final "Monetary plank – Republican Party 1944", dated 28 June 1944, the last date of the convention in Chicago, read "We shall maintain the value of the American dollar and regard the payment of Government national debt as an obligation of honour …." entry 16 November 1933.

[189] Kemmerer Papers, MC 146, Box 290, Folder 2, notes on funeral dated 20 December 1945.

bullionists, and the Banking school had to wait for F. W. Fetter (Jnr) (1965) for a sympathetic hearing[190].

5.4. Summary and Conclusion

The inter-war period was one of great turmoil. In it, as the situation changed swiftly and radically, so Keynes's thought responded, sensitive to the new reality. When a journalist challenged him on the inconsistency of his thinking, Keynes is said to have responded, "When the facts change, I change my mind; what Sir, do you do?"[191] And indeed, there was inconsistency between his thinking prior to the disappointments of the Treaty of Versailles, and hs thinking in the 1920s and 30s.

Kemmerer, however, cannot be accused of much inconsistency in his thought over the same period. His faith in an international laissez-faire system on the gold standard, in which private finance was dominant, was entirely unmoved by the largest series of bank collapses in world history, or by the one-way flow of gold into the United States leaving a serious liquidity shortage in other parts of the world. Kemmerer was unmoved by the devastating deflation of the period 1929-1933, and did not sufficiently acknowledge the success of the FDR administration in reflating prices, making farms profitable again, and reducing unemployment. Kemmerer was entirely faithful to his original sound-money ideas, as if the calamity of the 1930s and WWII were not of the world that he inhabited.

After 1950, the proponents of the sound money and development money ideas described in chapter 4 and this chapter, were followed by their intellectual progenitors who continued this battle of ideas. Although not the central theme of her book, Joan Robinson (1956) made the case for endogenous money creation. This was picked up by Nicholas Kaldor in his attack on Milton Freidman in *The New Monetarism* (1970). In it Kaldor challenged Freidman's sound money assumption that money supply had an exogenous source. Kaldor admitted that metallic money, such as that applicable to a full gold standard, had a supply exogenous to the banking system, but that this did not apply to credit money created in the banking system. In this case,

[190] While Fetter Snr did not entertain development money thought, his son specialized in it. Both the anti-Bullionists and the Banking School advanced development money arguments.

[191] This quote is apocryphal, and no credible source for the quote exists.

the demand for money by credit-worthy borrowers determined money supply. In a modern economy with a banking system, Kaldor (1970) made a strong case for a money supply that was endogenously determined. In *Horizontalists and Verticalists: The Macroeconomics of credit money* (1988), Basil Moore fleshed out the contrast between the Monetarist and the Post-Keynesian position, between those who held a gold standard-style insistence on the exogenous supply of money, and those who recognised the endogenous supply of money in the banking system. After the 1970s, and possibly influenced by Kaldor and Robinson, Moore became the leading proponent of endogenous money. His work, and that of Kaldor (1970) before him, has been a major influence on current day Post-Keynesians, including Steve Keen and Louis-Philippe Rochon.[192]

[192] I am indebted to the lecture by Louis-Philippe Rochon on *The Economics of Basil Moore* given to the International Symposium on Economic Thought in November 2020, for an overview of the post-1950 development of thought on endogenous money.

CHAPTER SIX: THE SOUTH AFRICAN MONETARY POLICY DEBATE, BRUWER AND HOLLOWAY, 1914-1924

6.1. Introduction

The political zeitgeist which provided the backdrop for the later debate between Holloway and Bruwer, was set by the challenge of unification which arose as a result of the Boer War. Prior to this war, Cecil John Rhodes had built an alliance with the Afrikaner Bond lead by Jan Hofmeyr, based on protectionist agricultural policies and an oppressive 'native policy' (Dubow; 2006: 143-144). Rhodes betrayed this alliance by his involvement in attempting to topple the Transvaal Republic in the Jameson Raid of 1895, and later by his support for the British invasion of the Boer Republics which became the Boer War (Dubow; 2006: 144-145). After the failed attempt by Leander Jameson to use anti-Dutch jingoism at the polls in the 1904 election campaign, Randlord capital swung behind "South Africanism", a new version of the old Rhodes/Hofmeyr alliance (Dubow; 2006: 159-162).

> In the years after 1905 there was an effusive outpouring of political, cultural, and educational initiatives designed to give content to South Africanism … in a country lacking either a national newspaper or a unitary parliament, it was difficult to stimulate public opinion … On response to this lack was the launch, in 1908, of a monthly journal, fittingly titled *The State*. Its founding editor, Phillip Kerr, was a member of the (Milner) Kindergarten, and the publication received discreet financial backing from the Rhodes Trust as well as two well-known mining magnates, Abe Bailey and Lionel Phillips. … It professed itself to be 'thoroughly South African in its outlook' (Dubow; 2006: 163-164)[193].

In addition to the political zeitgeist, a person's background is bound to affect their decision making. The archives show how true this was of Bruwer and Holloway; two men whose early lives shaped their very different responses to events. These were already clear during the Maritz Rebellion in WW1, when the Afrikaner community split over the Union government's decision

[193] Freund supports Dubow's (2006) view of the development of 'South Africanism' (Freund; 2019: 26).

to support Britain against Germany. These narratives are the background to the material discussed in chapters seven through ten of this thesis.

Bruwer and Holloway's backgrounds and temperaments seem to have pre-determined the paths the would follow; one to defeat against the political reality of his time, the other to an illustrious career in the Treasury.

6.2. Andries Johannes Bruwer and the lead-up to National Party government

Andries Bruwer's French Huguenot ancestor, Estienne Bruere, came to the Cape in 1688 on the Dutch ship *Voorschoten*.[194] In his book, *Sketches from Life* (1957), Bruwer talked of his father's farm in the Ladismith district of the Karoo, being "as big as five large farms today" (Bruwer; 1957: 5). He remembered his father having forty-nine formal shirts. As an indication of the family's wealth and social standing, Bruwer's father's governess came from the Netherlands. She was a Mrs van der Post, later to be the grandmother of Sir Laurens van der Post,[195] a writer, storyteller and friend of Prince Charles. Bruwer suggested that his father could have studied medicine in Europe, but instead entered the profitable business of transportation between Kimberley and Johannesburg.[196] But his father kept an emotional distance from his son, and never included Bruwer in adult conversations, even after he had completed his B.A. degree, and was better educated than his father.[197] Bruwer's mother was a childhood friend of the well-known poet, C. J. Langenhoven. In 1932, after Bruwer was cast into the social and political wilderness, his mother gave him the following poem:

Die wêreldhou nie van 'n man

[194] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 1.

[195] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667First batch of the memoirs of Dr A. J. Bruwer, page 74.

[196] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 74.

[197] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 75.

Wat sê wat waar is
As die duiwel daar is,
Wat doen wat reg is
As die regter weg is,
En wat trou aan sy gewet ebly
As hy straf in plaas van beloning kry.

The world does not like a man
Who speaks the truth
When the devil is present
Who does what is right
When the judge is absent
And who remains faithful to his conscience
If he receives punishment instead of reward.[198] (translated by the author)

Bruwer's sickly infancy was ascribed by the family to his birth, three weeks after the Jameson raid, an attempt by English Randlords to overthrow the Boer government of the Transvaal republic by force.[199] The family were staunchly in favour of the independence won from the British by the Boer Republics and were severely troubled by evidence that the Randlords and the British wanted to destroy this independence. Bruwer's mother later told him that "he had to drink her bitterness, and that was not good for you", referring to his breastfeeding at the time.[200] In 1906, when Bruwer was ten years old, his family formed a private school for their children, and those of others. Bruwer seemed to have been something of a loner and a top-performing scholar at school. Following a successful recital of a poem by Milton, Bruwer was beaten up by two Jewish "friends" at school. After the incident, Bruwer never returned to the

[198] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 79.

[199] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 5.

[200] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A J Bruwer, page i.

school again.[201] He was sent to Paarl High School for the year 1912 to finish his matriculation certificate, and from there went to Victoria College in Stellenbosch (now Stellenbosch University), where he completed a Bachelor of Arts degree in 1915. He described how much he enjoyed an academic environment, "where he could think".

6.3. Bruwer's response to the Maritz rebellion

While Bruwer was at Victoria College, the Maritz Rebellion took place in 1914. "In August 1914 Britain asked the South African cabinet to seize part of the German colony of South West Africa" (Giliomee; 2003: 380). Germany had provided armament support to the Boer Republics fifteen years earlier. Lieutenant-Colonel Manie Maritz received orders from the Union government to march on the German South West African border, but he defied these orders, "resigned his commission, crossed the border and joined the German forces with many of his men" (Giliomee; 2003: 382). General Christiaan de Wet, another Boer War veteran, also took part in the rebellion, and was defeated at Mushroom Valley in the Free State, on 12 November 1914, by General Botha, the Prime Minister, who personally took charge of the campaign against the rebels (Giliomee; 2003: 383). The Helpmekaar Studiefonds, which later paid for de Kock's Ph.D. studies at Harvard, was raised from the excess donations to pay the fines of these rebels, which was then used to establish the fund (Ehlers; 2018: 61-62). Bruwer describes his time at Victoria College as one in which feelings of solidarity with the rebellion ran high: "I moved to Stellenbosch (Victoria College). During my stay there, I received military training in the anti-khaki Defence Force (a rebel militia). When the rebellion broke out, the vast majority of students were unwilling to support a war waged by Britain against Germany, or anyone else, twelve years after the Peace of Vereeniging".[202]

After graduating in 1915, Bruwer took various teaching positions, and at the same time commenced part-time studies with a view to becoming a Minister in the Dutch Reformed Church. Bruwer claimed that in Philippolis, a small town in the then Orange Free State, he was

[201] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A J Bruwer, page 4.

[202] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page ii of Introduction to Deel III Kontak met die Party-Politiek.

visiting his friend, Christiaan van der Post,[203] where he met his future wife Sannie, the daughter of Commandant Naas van Rooyen who had been shot dead at Mushroom Valley during the rebellion in November 1914. Van Rooyen had been a close aide and friend to General de Wet, and a good friend of General Koos de la Rey, who joined Beyers and Maritz and de la Rey, and was killed at a roadblock before the rebellion could start[204]. Sannie, her mother and her siblings had to flee during the Boer War, to avoid being interned in a concentration camp.[205]

The responses of Bruwer to the Maritz Rebellion revealed a lot about how he would respond to the coming monetary crises. He saw no ethical problem with the fact that Maritz had accepted a commission in the Union Defence Force, and then betrayed that commission, crossing the border to join the other side.

Sannie married Bruwer in Bloemfontein on 5 January 1918,[206] and by all accounts was a valuable support to him for the rest of her life. In the early 1920s Bruwer relied on Sannie's political connections to advance his career. It was through her that he was introduced to General Barry Hertzog in 1922, when the Bruwers returned to South Africa from the US.[207] Sannie was also acquainted with other senior National Party politicians.[208]

[203] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 8 of Deel IV My Deelname aan die Politiek.

[204] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 4.

[205] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page iii.

[206] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 27.

[207] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section 2, Contact with Personalities page 13.

[208]Including Advocate Jan Hendrik Hofmeyr, (Jannie) de Waal, MP for Piketberg. A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 43.

Bruwer's father paid many of the expenses for Bruwer's overseas studies, where he was accompanied by his wife and infant son, with Senator Esias Grobler picking up the balance of the cost.[209] Bruwer's father sold a portion of his farm (the farm currently known as Springvale, adjacent to the farm Mymering in the Karoo, on which Bruwer and his wife are buried), so that Bruwer, his wife and child could travel to the US for Bruwer to study. Bruwer then made the mistake of giving this money "in trust" to an "attorney of his father", who stole it, and Bruwer applied to the Helpmekaar Fonds for funds to study Economics in the US. The representative in Cape Town declined his application, citing the fact that he had abandoned his theological studies, which indicated a "lack of determination". Perhaps the way in which he lost the money his father had given him was a contributing factor. But, it is striking that throughout his memoirs, Bruwer took no responsibility for his mistakes and, at times, particularly in the section dealing with his mishandling of his personal finances, and later when he spoke about losing money on the New York Stock exchange. However, being the eldest son of a Karoo farmer of some means may have had its advantages. Other civil servants, from a humbler background, might have slipped more easily into a subservient relationship with the British. Bruwer had no such humility and boldly challenged both the interests of the English imperialists, and of the Afrikaner Nationalists with whom he disagreed, regardless of whether the prevailing power structure was against him. Perhaps Bruwer was, as his detractors painted him, unable to be a team player and a holder of grudges. But we may not have had the rich debate against a monetary orthodoxy without the intellectual courage of the dissenting Bruwer.

6.4. Bruwer's studies in the US

Sannie, their son Andre, and Bruwer left for the US by ship in August of 1919.[210] Bruwer completed a master's degree at Harvard University in 1920 with a dissertation entitled *Currency, Banking and Exchange in South Africa*. His supervisor was Professor Allyn Abbott Young, whom he described as "more British than the British".[211] Young refused to admit

[209] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 28.

[210] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 9 of Deel IV My Deelname aan die Politiek.

[211] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section 2, Contact with Personalities page 5.

Bruwer's dissertation on *Protectionism in South Africa* for consideration for a Ph.D. as being "too anti-British". Young insisted that a chapter which was a vigourous attack on British Imperial Preference be excluded, or he would not award the Ph.D.[212] When Bruwer presented his work at a seminar at Harvard, he explained that the policy of Imperial Preference was rammed down the throat of South Africa at the Bloemfontein Imperial Conference of March 1903 by Alfred Milner, and added spontaneously, "We hate him" [213]. Mike de Kock, who was in the room, told Bruwer later that the comment got him, and a few others, smiling.[214] At Bruwer's oral defence of his Ph.D. at Harvard, it became clear that Young was not going to pass him, and Bruwer abandoned his studies at Harvard and moved to Pennsylvania University to complete them:

> I … decided to move to Pennsylvania University after Professor Young, during my oral examination, questioned me for two hours and forty minutes about the so called British Classical School of Economics, while twenty minutes was left over for questioning by my professors in international law, State Finances, Economic History, international trade, (or banking and gold policy which also fell under Young).[215]

At Pennsylvania University, Bruwer was able to work as an assistant in the economics department.[216] There he studied with the internationally famous Professor Frank William Taussig, obtaining his Ph.D. in 1922. Taussig later supervised Harry Dexter White's Ph.D. at Harvard in the late 1920s (Steil; 2013:20).

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[212] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 12 of Deel IV My Deelname aan die Politiek.

[213] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 13 of Deel IV My Deelname aan die Politiek.

[214] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 13 of Deel IV My Deelname aan die Politiek.

[215] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 13.

[216] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 30.

Bruwer's introduction set out his basic belief that "Whether the policy of protecting British interests in the markets of South Africa be good or bad, it is the opinion of the writer that much good will accrue to South Africa if the proper authorities help preserve and build up its national economy. … in the economic sense also the truth holds good that he most benefits the world who best serves his own people".[217]

Upon his return to South Africa in 1922, Bruwer found an environment hostile to a young Afrikaner seeking work in government,[218, 219] It is, of course, interesting that the three most highly qualified Afrikaner economists in 1922, Bruwer, Holloway, and de Kock, all only found employment in the state after the National Party came to power in the Pact government of 1924. In 1923, Bruwer found temporary work at the publication *Ons Land* at £15 a month. When he was interviewed for a position at the South African Reserve Bank, the Governor, William Henry Clegg, previously chief accountant at the Bank of England, was dismissive of his application. Unlike de Kock (see below), Bruwer was declined funding by the South African Treasury to publish *Protectionism in South Africa* as a book, with the Secretary of Finance informing him that they could not consider it, as it argued against the government's support for British Imperial Preference.[220] Bruwer found a publisher willing to take delayed payment, and it was published a year later in 1923.

6.5. A barely sovereign South Africa in WWI

When the Great War broke out in 1914, South Africa had been formally independent for only four years. The effort to conquer the Boer Republics, and commandeer their gold, in the Boer War now paid off for Britain. The Bank of England entered into the "August Agreement" in

[217] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 17 of Deel IV My Deelname aan die Politiek.

[218] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 34.

[219] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page iv.

[220] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 36.

1914 with South African gold producers, under the terms of which all South African gold was sold exclusively to the Bank of England at a fixed price of £3 17/9 per standard ounce and 97% of the set value was to be paid to the producers upon receipt of the gold in South Africa, the balance to be paid once it reached the Bank in London (Ally; 1994:33-34). The fiction of this "voluntary agreement", as it was claimed to be by the Bank of England (Ally; 1994:34), was revealed when, in 1915, one of the mining companies made arrangements to ship its gold, for a considerably better price, to America. When the British authorities discovered this, an "ultimatum was issued to the company to hand over its gold to the British representative in Cape Town" (Ally; 1994:34). From a Bank of England memorandum, it is clear that if the company had not complied, "the British government would have done what it did in Australia, it would have commandeered the gold" (Ally; 1994:34). By "commandeering" the 3% which it owed upon receipt of gold in London, by loading the shipping and insurance charges and by sticking to an official price considerably below that available on the world market, the Bank of England took a substantial share of South African gold revenue during the war (Ally; 1994:41).

William Henry Clegg, a couple of months after arriving in his post as the first Governor of the SARB, wrote to Montagu Norman, the Governor of the Bank of England, on 31 August 1921, informing him of the considerable anger in South Africa, amongst both the gold miners and the nationalists. "It is believed that the Bank makes about £50 million to £60 million per annum merely as commission". Clegg noted that these figures come from public statements by Samuel Evans. Evans was active in monetary policy debates in South Africa, he was Managing Director of Crown Mines, and Chairman of the October 1919 Gold Conference in South Africa. He also complained about the "statutory price" paid by the Bank of England for South African gold being less than the going price in America.[221] Although Norman corresponded with Clegg on other matters in the interim, he only responded to Clegg's allegations in his letter of 21 October 1921, protesting that the "Bank of England … paid over the whole of their profits on gold from whatever source to H.M. government from November 1915 to August 1919",[222] as if taking what did not belong to one were somehow legitimised by handing it over to a third party, to whom it also did not belong. Clegg also asked Norman why he did not allow South African

[221] Montagu Norman Papers, Bank of England Archives, File OV 37/20 SARB file 16/12/1920-31/12/1923. Letter from Clegg to Norman dated 31 August 1921.

[222] Montagu Norman Papers, Bank of England Archives, File OV 37/20 SARB file 16/12/1920-31/12/1923. Letter from Norman to Clegg dated 21 October 1921.

producers the freedom to sell their gold where they chose. Norman, fully aware that London's position as the centre of the gold market could now only be maintained by coercion, replied: "It would be one thing if we could restrict such 'freedom' to South Africa, but whatever arrangements were made with South Africa would necessarily have to be extended to India, to Australia, and to a half-a-dozen other colonies or countries".[223]

This coercion was extended in the July Agreement of 1919, in terms of which all South African gold would again be sold and transported to the Bank of England in London and then the South African producers "would be issued with special licences for its re-export to any country" (Ally; 1994:58-59). These licenses were not easy to obtain and "neither the gold producers nor the Union government were to display the same enthusiasm for the new selling arrangement as was the Bank of England" (Ally; 1994:67). This fact, and the political capital made of it by the nationalists, meant that the October 1919 Gold Conference passed the motion, "That the establishment of natural exchanges and of a free market for gold in the Union is desirable" (Ally; 1994:63).

Bruwer used his relative underemployment in the period 1922 – 1924 to articulate his criticisms of the Reserve Bank and the South African Party government's policy on economic matters. These criticisms were supported at the time by National Party politicians in general, and General Hertzog in particular. In this period, Bruwer was published in *Die Burger*, *Die Volksblad*, *Die Huisgenoot*, *The Cape Times*, *The Rand Daily Mail* and *Industrial South Africa*,[224] amongst others.

On 11 September 1922, *Die Volksblad* published an article by Bruwer, criticising the monetary policy of Clegg's SARB, and suggesting an alternative. In it, Bruwer proposed that instead of selling every ounce of South African gold, and investing the unused balances on the London market, South Africa should build a mint, mint its own gold coin, and retain reserves as minted

[223] Montagu Norman Papers, Bank of England Archives, File OV 37/20 SARB file 16/12/1920-31/12/1923. Letter from Norman to Clegg dated 15 November 1921.

[224] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 35.

gold coin in order to boost money supply and available capital in the country,[225] a classically mercantilist argument. In his memoirs, written long after WWII, Bruwer points out that this policy was in fact implemented in WWII, courtesy of the German submarine threat to shipping.

> The result of this strengthening of our bank reserves was that we could pay for the war effort without foreign borrowing, that we could repay £ 100 000 000, and grant England a gold loan of £ 50 000 000 after the war.[226]

In early 1923, after eight months of "wearing his shoes out", a "Jewish friend of the family" recommended Bruwer for a post at the Head Office of the Standard Bank in Cape Town at £30 per month, and Bruwer finally had a stable income.[227] At roughly the same time, on 3 March 1923, Mr J. Postmus, then Managing Director of de Nederlandsche Bank van Zuid-Afrika, later Nedbank, offered Bruwer a post as his personal assistant. But the salary at Standard Bank was higher, and despite Postmus suggesting that he had "sold his soul to Standard Bank", Bruwer recounts how his high levels of debt influenced him to continue with his Standard Bank job.[228] At this time, Bruwer was getting to know Hertzog, then leader of the official opposition in Parliament, and discussing economic and monetary policy with him at his room at the Regent Palace Hotel in Cape Town. Hertzog was delighted that Bruwer, during a walk up Lion's Head, had persuaded John X. Merriman, the last Prime Minister of the Cape Colony, and one of the founders of the South African Party (Giliomee; 2003: 268) to cross the floor of the house, and vote against the South African Party's Bank and Currency Act of 1923. Bruwer wanted to use

[225]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 148.

[226]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 149.

[227]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 34.

[228]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 19-20.

more of South African gold for credit expansion and development in South Africa, rather than have it all shipped to Britain, as the Act prescribed.[229]

As an indication of the reputation which Bruwer was building of having Hertzog's ear on economic matters, Albert Werth, MP for Kroonstad, asked Bruwer to find out from Hertzog who he intended appointing as Minister of Finance if he won the June 1924 election. After a supper at Bruwer's house, Mr and Mrs Bruwer walked Hertzog back to his hotel, and Bruwer asked Hertzog who he would be appointing Minister of Finance. Hertzog confirmed it would N. C. (Klasie) Havenga.[230] At this time, Hertzog asked Bruwer not to accept the post that he was being offered at Old Mutual Insurance Company, as he wanted to appoint him to the Board of Trade and Industry.[231]

Talking about how he came to know N. C. Havenga, soon to be Minister of Finance, Bruwer revealed that "Mr Klasie Havenga was introduced to me by General Hertzog and became Minister of Finance in the Pact government. I knew him slightly, one day we walked from the Arthur Seat Hotel in Sea Point to Cape Town".[232]

Bruwer was active in the press, in the period after his return to South Africa in 1922, arguing for a National Party economic policy which, according to the State Department in the US dated 15 September 1923, included the Ideal of Independence from Britain. It also included "The formation of a department dealing with Foreign Affairs", a "State Bank", a "Prior claim of the

[229]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 42.

[230]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 43.

[231]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 48. Hertzog made good on his promise.

[232]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 28.

State to start mining operations on new ground", and the "Creation of a Ministry of Labour".[233] Bruwer contended that the High Commissioner for South Africa was appointed through the South African Treasury, which was dominated by what he called "Milner men".[234] Certainly, South Africa was only permitted to form a Ministry of Foreign Affairs "shortly after the Balfour Declaration confirmed the Union's status as independent and equal within the British Commonwealth" (Muller; 1999:188). The Ministry of Foreign Affairs was run through the Prime Minister's Office from 1927 until 1955, when South Africa finally appointed its first Minister of Foreign Affairs, Eric Louw (Muller; 1999).

6.6. Bruwer calls for a State Bank, and argues against a Central bank

Before discussing Bruwer's critique of the SARB, a survey of the topography of banking and currency in South Africa from the second half of the 19th century until 1921 would be helpful. For this section, I rely mostly on *Banking and Currency Development in South Africa (1652-1927)* by E. H. D. Arndt, published in 1928, not just because of its authoritative nature, but also because both Bruwer and Holloway would have had access to it.

Arndt's foreword left no doubt that he was firmly a "sound money" thinker:

> South Africa's past, in the sphere of banking and currency, … reveals the typical currency development from the barter economy to the credit economy through all the transition stages. It reveals the dangers of Government banking and Government interference in the sphere of currency; the ease with which paper money is issued but the difficulty of stopping the issue of notes, the ease with which the gold standard is abandoned but the heavy penalties to be paid before the return to the gold standard is possible again (Arndt; 1928:v).

The evidence that Arndt produced did not always support his "sound money" assumption that it was best to leave banking to the forces of the unregulated market. Banks proved to be unstable, and the banking system prone to instability. The crises of 1865 saw the failures,

[233]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 257, dated 15 September 1923. Microfilm Cab 32/4.

[234]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 28.

between 1865 and 1869, of the *Victoria West Bank,* the *Montagu Bank,* the *George Divisional Bank,* and the *Frontier Commercial and Agricultural Bank,* through liquidation (Arndt; 1928: 272 – 273). The early 1870s saw the liquidation of the *Agricultural Bank of Queenstown,* and the acquisition of various banks by the *Oriental Bank Corporation,* the *Imperial Bank*, and the *Standard Bank*. 1877 was a year that saw a systematic banking crisis with the liquidation of the *Somerset East Bank,* the *Swellendam Bank,* the *Colonial Bank, Cape Town,* the *London and South African Bank,* and the *Stellenbosch Bank.* The *Oriental Bank Corporation,* which had been on an acquisition trail in the late 1860s and early 1870s, was itself bought out of liquidation by a London-based bank (Arndt; 1928: 280-281).

1881 was another terrible year for banking in South Africa, as *The Cape Commercial Bank,* and *The South African Bank* were liquidated, and many others came close to bankruptcy. The 1890s saw another banking crisis. "The continued shrinkage in the value of mining shares was telling upon the institutions which were heavily involved, and brought about the collapse of the Union Bank followed by the Cape of Good Hope Bank, and finally the Paarl Bank" (Arndt; 1928: 289). Many of those that survived liquidation were bought out by the *Standard Bank,* including *The Wellington Bank, The African Banking Corporation, The Western Province Bank, The Kaffrarian Colonial Bank,* and the *Worcester Commercial Bank* (Arndt; 1928: 294 -295). Between 1905 and 1914, further liquidations and consolidations occurred. *The Robinson South African Banking Company Limited* was liquidated. *The National Bank of Orange River Colony* was bought out by the *National Bank* after an unsuccessful bid by the *Standard Bank.* Its majority shareholder was the government prior to acquisition (Arndt; 1928;388 – 389). The *National Bank* was also growing strongly in this period by the acquisition of *The Bank of Africa* and *The Natal Bank* (Arndt; 1928: 390). The period running up to the establishment of the SARB ended with the acquisition of *The African Banking Corporation* in 1920 by the *Netherlands Bank* and the "merger of the only two Dutch Banking institutions": the *Transvaal Commercial Bank* was acquired by the *Netherlands Bank* in 1925.

It is surprising that someone could read this history of banking instability and liquidations in the 60 years prior to the establishment of the SARB, and come to the conclusion that no central bank was required. Agitation for the establishment of a central bank, a state bank, and a proposal for a "Bank of Issue", was taken up by the Attorney General of the Cape Colony, William Porter, in 1854, when he "made a plea for a Government note issue" (Arndt; 1928: 402). The *Argus* noted "that the honourable gentlemen who are so eager in support of this

measure are those who have either sold all their shares or quarrelled with the banks" (Arndt; 1928: 404).

In 1881, a prominent Afrikaner nationalist, Dominee Stephanus Jacobus du Toit, formed the *Afrikaner Bond* to resist British imperialism. One of its main concerns was the various banking crises in the period 1865-1890, and the dominance of banking in the country by the London-based imperial bank, *Standard Bank*. Du Toit was active in proposing a State bank, placing its establishment at the top of the agenda of the Afrikaner Bond. "In 1891 the subject was brought forward in Congress by fifteen branches of the Bond, and it was resolved unanimously and with acclamation that the establishment of a National Bank was not only desirable but imperatively necessary" (Arndt; 1928: 414). This agitation was complemented by articles and editorials in the newspaper *de Paarl*, particularly in 1891. But reading about these agitations with hindsight, it is important to separate the arguments for a State Bank, with developmental aims, and those arguments in favour of what have become the functions of a central bank. "A new series of articles was begun, which were republished in a 54-page pamphlet under the title 'Eene Nationale Bank'" (Arndt; 1928: 415) and these favoured the model which had evolved in Europe, which was much more a central bank than a State Bank. Arndt discusses how du Toit "deserves credit for introducing the name 'Central Bank' in South Africa, but to say that he showed any grasp of the function of such an institution would be going too far. What he really appears to have had in mind was not a central bank but a truly national institution" (Arndt; 1928: 417). When he wrote this, Arndt obviously had the idea of a central bank, as it existed in 1928, in his mind. Many of the functions of a central bank, after nationalisation in the middle of the 20th century and the simultaneous adoption of Keynesian policies, would have been foreign to Arndt, writing in 1928.

In a 1913 lecture on *Banks and Bankers*, Johannes Postmus, then Inspector of the Nederlandsche Bank, and later Governor of the SARB, argued for the establishment of a central bank, on the model of de Nederlandsche Bank and the Bank of Java (Arndt; 1928: 418). Postmus's idea was for "State supervision of the Management, but no interference with the policy, as party politics should never enter into economic problems" (Arndt; 1928: 419).

6.7. The South African Monetary crisis of 1919 and the birth of the South African Reserve Bank

When the Liberal government of Lloyd George came to power in Britain at the beginning of 1919, it feared the hardship and disruption which would come from returning to the Gold Standard and the pain that deflation would bring. For these reasons the Cunliffe committee recommended setting aside "fiscal, financial, commercial, and monetary orthodoxy in order to hasten the revival of industry and employment" (Ally; 1994:104). Britain abandoned the sterling/dollar peg in March 1919 and sterling depreciated, as did the South African pound, but not by as much. As a result of this depreciation, the content of gold in a gold coin was now significantly higher than the official gold coin price. "While a sovereign was still only worth 20s in the Union, in places like the Indian Bazaars it could fetch as much as 38s 9d" (Ally; 1994:105). As a result, from 1 April 1918 until 31 March 1920, specie to the value of £2 945 435 had left the country, most of it after March 1919 (Ally; 1994:105).

The American consulate in Cape Town reported to the State Department that the "South African exchange crisis" was "being prolonged in absence of American banks".[235] This was one of the first of many communications by the US consulate about possible US financing opportunities in South Africa.[236] The burden of this drain was felt heavily by the banks, who appealed to the South African authorities to be relieved of their obligation to exchange their notes for sovereigns at par, given that they were paying more for gold than they were receiving (Ally; 1994:105). In response, the South African government convened a special Gold Conference in October 1919, essentially to answer two questions: Should the embargo on the export of gold be lifted, and should the South African pound break the link with sterling and establish a direct link to gold? The bankers preferred a sterling link, given the huge cost to them of the then-current link to gold. In the opposite camp were the nationalists, who wanted an independent link to gold in order to gain independence from Britain, and the white Labour Party who had an obsession with the eroding power of inflation, oblivious to the economic damage which comes from deflation. The Conference resolved to reject a fiat currency and committed to return to a full Gold Standard, a victory for the nationalists and Labour, and a defeat for the banks. Smuts supported this resolution, support he was to withdraw once he was

[235]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 515/18, 29 September 1920.

[236]It was preceded by a report of 7 February 1920 that National City Bank of New York had opened a branch in Cape Town. US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 516/7, 7 February 1920.

persuaded a couple of months later by Henry Strakosch, his currency and banking advisor. Perhaps Smuts's support came from his lack of understanding of economics. Smuts's education and reading did not seem to have extended much into the fields of Economics and Finance. His extensive library at Irene had very few books on economics, and Smuts himself wrote in a letter to his friend Margaret Gillett (née Clarke) from the negotiations for the Treaty of Versailles, where economic data was being discussed: "I wish I had Arthur here to help me as I am quite ignorant of finance".[237].

"Faced with a rapid depletion of their specie reserves, the banks proceeded to restrict their advances and exchange purchases" (Henry; 1963:181). At the Bank of England, Norman was shocked by the bad news from the Gold Conference in South Africa and met regularly with Strakosch to get a review of the South African monetary policy decision. At the time, Britain was not only unready to return to the gold standard, but a South African re-adoption of it would have compromised London's leadership of world finance.

Keynes's first, admittedly casual, invitation from the South African government to visit South Africa came in the form of a letter from Captain Lane, the Secretary, Office of the High Commissioner for the Union of South Africa, dated 23 September 1919, and replying to Keynes's letter to Smuts regarding the "Strakosch scheme" for selling South African gold. But Keynes declined the invitation, and Strakosch left for South Africa, by ship, on 8 December 1919.[238]

Bruwer's courage and the fearlessness with which he tackled powerful institutions is to be admired. But while his analysis of the British imperial motive in South African Reserve Bank behaviour was astute, he often failed to appreciate the important stabilising roles of a central bank, something Keynes was never guilty of. Keynes well understood and articulated these roles in *ICF*, *The Tract* and the *Treatise*. Nevertheless, sometimes Bruwer's criticisms were

[237]Smuts Papers, National Archives Pretoria, Originally Vol 22 (renumbered 206), 226. Arthur Gillett was a personal friend of Smuts and the husband of Smuts's friend, Margaret Clark, and her sister Alice, to whom Smuts was also attracted (Schwartz; 2011:312). See also Smuts Papers, Vol 24 no.96. Despite finance not being his field of study, Smuts served from 1912 to 1915 as Finance Minister of the Union of South Africa

[238]Keynes papers L/ ST/ 148 – 149, letter from Lane to Keynes dated 23 September 1919

valid and a correction in policy was needed. Bruwer correctly understood that the foundation of the SARB was a project of the Bank of England.

Strakosch, who led the process, was first and foremost a British capitalist. The extent to which Strakosch had ingratiated himself into the British power elite was shown by the fact that, after the outbreak of the First World War in 1914, he survived the removal of German-speaking members from the Board of Directors of Goerz and Co. (renamed Union Corporation after 1918) (Phillips; 1924:161). In the 1920s he met with the Governor of the Bank of England forty-six times alone, and more than twenty times in company. Much of that time was spent planning South African monetary policy so that it suited Britain (Sayers; 1976:202). Despite continuing to be Managing Director of the South African Mining Holding Company, Union Corporation, until his death in 1944, Strakosch visited South Africa "only twice after 1901". That a Managing Director can continue for 43 years to earn a substantial sum of money from operations in a foreign country, and have no need to visit it more than twice (Oxford Dictionary of National Biography; 2004), is surely an extraordinary testimony to the power of London-based capital in the economic affairs of South Africa in the first half of the 20th century, and to Strakosch's centrality in this hegemonic enterprise.

A web of cooperation existed in England on the drafting of monetary policy following the Gold Conference in South Africa in October 1919 (Bordiss; 2014: 97-114), and up to and beyond the appointment of the first Governor of the South African Reserve Bank (Bordiss; 2014: 122 – 123). The memorandum, which Strakosch presented to Smuts in January 1920, was the product of extensive discussion between the British financial elite and the South African Prime Minister and Finance Minister. Strakosch acted as the advocate for the proposal, consulting Keynes, at that stage an advisor to the British Treasury, Norman, Governor of the Bank of England, and Fredrick Goodenough, Chairman of the imperial bank, *Barclays*, as well as Smuts and Hull. Keynes in turn consulted Sir Basil Blackett at the British Treasury and Smuts, and Norman also consulted Goodenough (Bordiss; 2014). The memorandum which Strakosch presented to Smuts upon his arrival in South Africa in January 1920 was essentially drafted before reaching South Africa.[239]

[239] Keynes papers L/ ST/ 148 – 149, various correspondence of December 1919 and January 1920.

Having gained the trust and confidence of the Prime Minister of South Africa (Smuts), and having been appointed to advise the South African government on monetary policy, including the establishment and nature of the SARB, Strakosch got Smuts's support for his memorandum and then the support of Smuts's inner cabinet circle. Strakosch then rammed it through the public participation process, dominating these forums, until his ideas were established as law, substantially unchanged. This was essentially also true of Kemmerer and his process four years later. Policy was decided on before the official decision-making processes authorising monetary policy in the period 1920-1925, and these commissions of inquiry were not open-minded searches of all available alternatives. Invariably the government had an idea of what it wanted to do, and then found the expert who would confirm their previously-held views. When it came to selecting Clegg as first Governor of the SARB, the committee, consisting of Keynes, Goodenough, Gillett, and Strakosch, were all British subjects, all residents of Britain, and none were committed in any meaningful way to South African 'national' capital.

Bruwer described the extraordinary role that the "international capitalist", Henry Strakosch, played in the establishment of the SARB. Strakosch's letter to Keynes, dated 17 February 1920 from South Africa, indicated the extent of his influence. It was a brilliant summary of how an expert, who had the confidence of the ruling élite, could force his will on the process of decision-making, in this case in getting the Currency and Banking Act of 1920, which established the SARB, passed into law:

> Two days after my arrival in Johannesburg, I went across to Pretoria and had a long talk with Smuts. He enquired after you and was disappointed that you did not come out … Towards the end of last month, I presented to Smuts my memorandum. A few days later we had a conference at which Mr. Orr, the Minister of Finance, and Mr. E.H. Farrer, the Financial Secretary to the Treasury, were present. My views were adopted, subject to the advice of a committee consisting of representatives of the Associated Chamber of Commerce, Chamber of Mines, the Federated Chamber of Industries, the Agricultural Union and the banks. There are also to be three members nominated by the Government and the Financial Secretary to the Treasurer. I have been invited to act as one of the Government's nominees, which invitation I, of course, accepted.[240]

[240] Keynes papers L/ ST/ 156 – 161, letter from Strakosch to Keynes dated 17 February 1920.

While still in Britain, Strakosch managed to win the confidence of the Prime Minister, and let the Prime Minister know the basic thrust of his views on the currency question prior, to sailing for South Africa. On arrival, Strakosch talked it through with Smuts and probably gained his approval. He wrote up these views in a "memorandum" which was then presented to Smuts, Orr and Farrer, whereupon the views were "adopted, subject to…". Strakosch boasted to Keynes, in a hand-written letter from the Mount Nelson Hotel in Cape Town, written on 20 May 1920, "The committee desires me - against all precedent – to be present during the examination of the other witnesses – present indications point to a substantial majority in favour of my proposals".[241]

Bruwer's objection that William Henry Clegg, first Governor of the SARB, was "imported for the post by Edmund Hugh Farrer, Companion of the Order of St Michael and St George, and his then Minister Henry Burton",[242] was not technically correct, but his instincts certainly were. Bruwer astutely observed that, shortly after the passing of the Currency and Banking Act of 1920, Strakosch was knighted, "and became 'Sir Henry'. He must have naturally done something to advance imperial interests".[243] According to Bruwer:

> The purpose of founding the South African Reserve Bank was for it to be the first link in a chain of Reserve banks in the British Commonwealth, as a conduit for the London gold market. Clegg kept the South African Reserve Bank tightly bound to the London gold market. He was Havenga's mentor on Currency and Banking matters. No wonder Havenga was so dramatically against a State bank.[244]

But just as the Pact government was blinded by its desire to escape British monetary control when it took the damaging decision to remain on the gold standard after September 1931, so

[241]Keynes papers L/ ST/ 164, letter from Strakosch to Keynes dated 20 May 1920.

[242]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 116.

[243]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 117.

[244]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section II My Contact with Personalities page 7.

too Bruwer became blinded by his hatred of British economic control, to the point where he failed to appreciate the importance of a central bank in regulating money, currency and banking. Instead, he was taken in by the "sound money" arguments of a gold standard orthodoxy, set out in his book arguing against the establishment of the Reserve Bank in South Africa, with the usual "sound money obsession" about the imminent dangers of the inflation that it may cause.[245] These fears proved unfounded. On 27 February 1923, Bruwer's article, critical of the SARB and calling for a State bank, was published by the *Cape Times*.[246]

Less than three months later, Clegg telegrammed Norman, on 23 May 1923, with his concern that Smuts might buckle to nationalist pressure, nationalise the failing *National Bank* and turn it into a State Bank, amalgamating it with the SARB.[247] Norman recognised the threat (which was being driven by Bruwer), and the opportunity, and telegrammed back on 11 June 1923, offering, in the strictest confidence, that the Bank of England would assist with any rescue of the *National Bank* on the strict condition that the independence of the SARB was maintained. The *National Bank* continued to suffer, with deposits falling by £5.5 million in the year ending March 1924 (Crossley and Blandford; 1975:11). Little wonder then that F.C. Goodenough, the chairman of *Barclays Bank Limited* from 1916, who was intimately involved with Strakosch and Norman in choosing Clegg for his position, and from whose office the selection process was run (Bordiss 2014: 122 – 123) was ready when, in April 1924, the "Governor of the South African Reserve Bank visited London" (Crossley and Blandford; 1975:12). Goodenough entertained Clegg "at lunch at the National Bank's London office" (Crossley and Blandford; 1975:12). Of course, the *National Bank* was struggling with a "lack of capital together with the restrictions imposed on the bank's freedom of action, necessitated by the close supervision of the Reserve Bank" (Crossley and Blandford; 1975:11).

[245]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 118.

[246]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 117.

[247] Montagu Norman Papers, Bank of England Archives, file OV37/20, telegram from Clegg to Norman on 23 May 1923.

Barclays were anxious to get South African government approval for the takeover of the *National Bank*, and following the offer to National Bank shareholders, its Managing Director, Mr Leisk, secured the approval of Hertzog and his finance minister, Havenga, in April 1925 (Crossley and Blandford; 1975:17). The *National Bank* changed its name to *Barclays Bank (Dominion, Colonial and Overseas)* later that year.

Ethical concerns about the incestuous relationship between banking regulators and the banks which they were tasked with regulating should have raised a few eyebrows. Norman and Goodenough had been central to the appointment of Clegg. Norman and Clegg were involved in the rescue, regulation, and sale of *National Bank*, allowing *Barclays* an instant national presence in South Africa. Although a causal relationship did not exist, Strakosch's £5 000 cheque supporting Smuts's 1924 election was drawn on National bank.[248]

With the rescue of the National Bank and the African Banking Corporation from insolvency, it is difficult to understand how Bruwer could have remained so blind to the advantages of a properly functioning Central bank.

Bruwer's opposition to the establishment of the SARB were set out in his book *Currency, Banking and Exchange in South Africa* (Bruwer; 1920), which was a critical response to what Bruwer called "the Strakosch affair",[249] the Currency and Banking Act of 1920. President F. W. Reitz (previously President of the Orange Free State, prior to the Boer War) wrote the foreword on 16 October 1922, in which he said:

> If what the writer asserts (and to my mind proves) about 'inflation' and the 'Bradbury' and the consequent evils, be correct, then it behoves both our legislators and our administrators to look this danger in the face and to take the necessary steps to retrieve

[248] Smuts Papers, National Archives, Pretoria, File 30 (renumbered 214 in National Archives) number 38, Strakosch's letter dated 16th April 1924.

[249]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 116.

[249] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 117.

> the damage that South Africa has already suffered from the existing monetary conditions.[250]

This "sound money" drumbeat came after Bruwer spoke fondly of the orthodox, "sound money" article ,by Professor Edwin Cannan, on South African monetary conditions, which appeared in the British *Economic Journal, Vol 30, No 120* (December 1920), pp 519-530. Cannan took an orthodox "sound money" position, mostly in opposition to the "development money" position of the mercantilist and national economists that Bruwer favoured. But Bruwer's thoughts on the SARB and a proposed State Bank seemed to be driven mostly by his concerns that South Africa needed to escape the clutches of British imperialism, rather than by a wish to develop the country. He was happy to argue "sound money" concerns about inflation, which data of the period from the establishment of the SARB until the outbreak of the Second World War showed to be benign. But Bruwer could not resist the opportunity to stick the boot into the "Milner men" at the Treasury, and Cannan's words in this regard were music to Bruwer's ears.

> Professor Cannan expressed the opinion that, as long as the financial management of the Union were in the hands of a man like Farrer, there was not much hope for healthy finance in the Union. He said that the Union, with its ban on the export of gold coin made him think of the town cobbler, who left his wife and children to walk around the streets barefoot, to show how bad it was to wear shoes.[251]

This thinking animated arguments before the Kemmerer-Vissering Commission. The theory went that South Africa, as the producer of 60% of the world's gold, should set an example by supporting and implementing the international gold standard, and the free movement of capital implicit therein. It involved accepting Hume's Price Specie Flow mechanism, and Ricardo's arguments for relative advantage, as detailed in Chapter 4 (see pages 43 - 45). But, as is often

[250]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 118.

[251]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 116. Bruwer quotes from the article by Professor E. Cannan, entitled Review*: South African Currency,* in *Economic Journal, Vol 30, No 120* (December 1920), pp 519-530.

the case with "sound money" laissez-faire orthodoxy, the evidence was not always supportive of the theory. In fact, the opposite was true – once the world could no longer sustain the fallacy of gold-standard-based stability, and many countries were forced off the gold standard, the gold price shot up, and the gold mines became considerably more profitable than they had previously been under a fixed gold price. Ernest Oppenheimer well understood that the world's departure from the gold standard in 1931 would drive up the gold price.[252] Samuel Evans, Managing Director of Crown Mines, failed to understand this, which perhaps explains why it was Oppenheimer who became the dominant gold mining monopolist and not Evans. Bruwer went on:

> Here is a country with a good banking record, with practically only two or three commercial banks, with special credit machinery resulting from certain conditions inherent in the country's economic life as a result of natural disabilities, for example, trying to establish a central banking institution with the main emphasis on reserve control and note issue, relying upon rediscounts of bills as a method of controlling credit expansion or contraction and looked upon honour to be bound not to compete with the commercial banks. Not even the Government accounts were given to our central institution. …[253]

Bruwer acknowledged the fact that in "up-to-date countries" the central bank "safeguard(s) the interests of the public as against those of private shareholders" and that this was achieved by the central bank, by:

(a) Control of the note issue of the country;
(b) Control over the cash reserves of purely commercial banks;
(c) Its acting as the fiscal agent of the government;

[252]See the reports on the parliamentary debates in the *Cape Times* 12 March 1931.

[253]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 121.

(d) Control over credit expansion or contraction by means of a fluctuating rediscount rate and by dealings in securities, etc.[254]

Again, Bruwer was intellectually inconsistent. He criticised the "cookie cutter" approach of Strakosch in drafting South Africa's Central Bank legislation (the Currency and Banking Act of 1920), and then went on to set out four excellent tasks which served the public of a country, and not just its banking sector. Bruwer was right about the drafting being based on the Federal Reserve System. De Kock (1954; 34) noted that it was drafted by "Mr. Strakosch with Professor Kemmerer's *A. B. C. of the Federal Reserve System* beside him".[255] It is somewhat bizarre that, five years after one of the country's three largest banks had found itself in such financial trouble that the SARB had needed to intervene to prevent its collapse, Bruwer described the country as having a "good banking record". The problems of the National Bank, together with the numerous other bank failures chronicled by E. H. D. Arndt in *Banking and Currency Development in South Africa* (1928) indicate that South Africa needed a lender of last resort.

Nevertheless, many of Bruwer's criticisms were valid. Firstly, the SARB was, and is, an important public institution, and there were and are good arguments for it to be state-owned. That debate continues into the current era. Many central banks were nationalised in the 1950s, with this thinking in mind. An analysis of Bruwer's critique of the SARB reveals that he was not against central bank functions in principle, but rather against them being performed by a private central bank, with close ties to the Bank of England.

> If the Union needed a Currency Control Bureau then such might have been established in the Treasury to advantage especially in view of the high standards of commercial banking and the enormous development of branch-banking in South Africa, as a result of which latter position no government in the Union can stand by and see one of our

[254]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 122.

[255] It is ironic that Strakosch used Kemmerer's text on central banking when drafting the Currency and Banking Act of 1920, given that it was Kemmerer who was to undo much of Strakosch's monetary policy work in South Africa.

> bigger institutions go bankrupt; but the Union needs a national banking institution to put the interests of the state before those of shareholders.[256]

Secondly, Bruwer, on numerous occasions, criticised the SARB for holding its reserve balances on the London money market. The counterargument of Bruwer, the Afrikaner nationalist, and many Indian nationalists, was that the capital could better be employed in South Africa and India respectively, and that it would lead to greater development of these countries. This mercantilist logic had allegedly been "discredited" by Hume and his intellectual antecedents, but history shows that a country flush with capital does better than one without (de Cecco 1974). South Africa had corrected the relative capital drought of WWI by that the beginning of WWII, and this is dealt with in chapter ten. Bruwer combined the first and second criticisms detailed above when attacking the London balances, noting that "'to carry coals to Newcastle' by investing big amounts on the London market in order to make profits for its shareholders"[257] was a bad idea. But just after he made an excellent "development money" mercantilist point, he switched to "sound money" advice, which he would contradict four years later (in the 1931-1933 banking and currency crisis):

> Central reserve banking is one of the ways of economising in the use of gold for currency; but it is in the interest of South Africa to encourage the freest possible use of gold as a currency.[258]

Only four years later, Bruwer would find himself at odds with this "sound money" thinking. His decision to follow Keynes, in rejecting the gold standard and supporting devaluation, would result in his exile from the Afrikaner civil service for 22 years.

6.8. The early years of Jack Holloway

[256]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 124.

[257]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 123.

[258]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 123.

John Edward (Jack) Holloway was born in 1890, on a farm in the district of Hopetown, in the then Cape Colony. His grandfather had emigrated from England, but acculturalised as an Afrikaner (Botha; 2002: 18). Holloway did not have wealthy parents, and the "family moved to Stellenbosch under reduced circumstances" (Botha; 2002: 18). Holloway paid for his school fees by working for a clothing shop in Stellenbosch, whose owner loaned him the money to complete his BA (Hons) in history from Victoria College, now Stellenbosch University, the same institution that had provided Bruwer with his undergraduate degree (Botha; 2002: 18).

Holloway then taught history at Grey College in Bloemfontein. Letters from an English-speaking lady admirer, Marjorie Cuthbert, a fellow student from his Victoria College days, reveal what it must have been like to be a young, educated Afrikaner in a country which the British had only just handed over to a nominally Afrikaans-led South African Party government. In one of the earlier letters, she sympathised, "I can imagine how annoyed you were at your colleagues picking holes in your English".[259] But the jingoist insults from British imperialists did not cease, and Holloway, a tall and well-built man, decided to offer to settle these insults with a fist fight. "You are getting vindictive nowadays. You will be setting up a nice reputation for yourself, but perhaps it is just as well. Brutal force often does more than moral persuasion … I am sorry that you are not experiencing the best side of Englishmen's natures".[260] Three months later, and there was yet another fistfight to discuss - "you were at a disadvantage for you had never [prior to his post in Bloemfontein] come across such people before. I can just imagine how irritating their remarks were. I who am English through and through have been boiling over with rage many a time when English people have run down South Africa and its people generally".[261] We know from Marjorie's letter to Jack of the 21st May 1912 that he had "let her down gently" and that she was pleased that he had "gained the

[259]J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 21st May 1911.

[260] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 17thJune1911.

[261]J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 30th October 1911.

love of such a fine woman" (Tienie).[262] There seems to have been some hope from Holloway's family, that he would continue with ties to an English-medium church. There is a letter from one of Holloway's sisters to the other, "Lottie" to "Dolly", congratulating her "on your confirmation, I suppose that Jack will feel now that he ought to be confirmed too".[263] Lottie wrote to Holloway on 10th October 1912, "I must write and congratulate you with your confirmation. I could not do it when Teen (sic) was there, because I thought she showed too clearly that she did not approve of it by her absence from the church that night. … My wish is that you remain true to your church."[264]

Holloway married Tienie in 1913, herself also a descendant of an Englishman, a missionary, and also from a family that acculturalised to be Afrikaans (Botha; 2002: 18). It seemed that Jack and Tienie were equally determined to be Afrikaans in a world still dominated by English imperialism. The letters from Lottie and Susan after WWI were written in Afrikaans and signed "jou liefhebbende susters" – your beloved sisters.[265]

In 1914, the newly married Tienie and Jack left for Belgium, where Holloway undertook post-graduate studies at Ghent University. But the First World War interrupted these studies, and he moved to the London School of Economics, where he completed a doctorate in economics in 1917 on *The Economic Causes of the Great Trek*.[266] After Holloway had completed his Ph.D. at the LSE, and had returned to South Africa, Victoria College turned him down for a vacant

[262] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 21st May 1912.

[263] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Lottie to Dolly dated 27th June 1912.

[264] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Lottie to Holloway dated 10th October 1912.

[265] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Lottie and Susan to Holloway dated 25thMay 1919.

[266]A copy of which I obtained from the Holloway family.

teaching post in South African history,[267] as they had done in 1912.[268] This pattern, repeated in the lives of both Bruwer and Holloway; each one's battle to obtain posts commensurate with his qualifications, suggests that the period before the Pact government of 1924 was still one with a preference for English applicants. A friend, writing *To the brood of Jack and Tienie Holloway,* described them in London as "beastly-poor, charming, and hospitable".[269] Acknowledging his fate in retrospect, Holloway said, "It was therefore not by my design but by predestination that I was turned away from the role of a groping historian to that of a grasping economist. As a good Calvinist I plead this fact."[270] Holloway acknowledged the tutelage of Professor "Edwin Cannan (who) accepted nothing at face value".[271]

6.9. Holloway's response to the Maritz Rebellion

In 1915, Holloway wrote a fascinating letter to his sister Lottie, in which he debated the moral question of where the Afrikaner should stand in the war which had broken out between the British, previously the oppressors of the two Boer Republics, and the Germans, who had supported the Boer Republics. It is an example of Holloway's fine thinking in working through the issues, embracing the complexity and nuance of the situation:

> There is no doubt that a state of war exists between the Union and the Germans. In international law, the Union is seen as a part of the British Commonwealth, and if the Commonwealth declares war on any country, then ipso facto it includes all the colonies. It is another question as to whether we must attack the Germans. *The Afrikaner is now*

[267] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 12th November 1917.

[268] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Marjorie Cuthbert to Holloway dated 27th October 1912.

[269] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 8/1/1 My Gramophone and my Records, To the Brood of Jack and Tienie Holloway, by Gustaaf Renier undated.

[270] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/B1/1 South Africa Club Dinner, 4 October 1956, Address by the High Commissioner Dr J. E. Holloway page 1.

[271] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/B1/1 South Africa Club Dinner, 4 October 1956, Address by the High Commissioner Dr J. E. Holloway page 2.

in his heart and mind anti-Imperialist (italics mine). It took an era of imperialist government to teach us this, and it is now a part of our character.[272]

Holloway is interesting in his detailed, and painstaking, treatment of the Maritz Rebellion, and the related invasion of German South West Africa. The complicated relationship between the German nation and the "Afrikaner nation", German aggression against Belgium, and other aspects of the politics of 1914 and 1915, were all dealt with in Holloway's letter. The comparison with Bruwer (see pages 122 - 123 above) is instructive, firstly because it is a window into the personalities of these two men, and secondly because Holloway, being a discreet and circumspectly loyal civil servant, had nothing in any of his archives which might have been an embarrassment to his political bosses, whether they were Havenga and Hertzog or, later, Hofmeyr and Smuts. This loyalty was admirable and touching, but it leaves fewer clues as to his motives. By contrast, Bruwer had no fidelity to those who disagreed with him. Bruwer's archives are full of scandalous detail about his superiors, that Holloway would never have dreamt of revealing. Furthermore, the comparison between Bruwer's and Holloway's responses to the Maritz rebellion in 1914-15 gives us a hint as to how they would respond to the monetary crisis in 1931-33. Holloway took the opposite view to Bruwer. He frowned upon officers in the Union Defence Force betraying their commissions. In particular, he opposed the use of lawless means for Afrikaner emancipation from the yoke of British imperialism, when constitutional options were available.[273]

Holloway embraced multi-party democracy and rejected the paramilitary option. His careful analysis and working through of the issues of the tumultuous period of the South African parliamentary era after 1910 showed him to be a committed constitutionalist, albeit with the same aim as Bruwer. Holloway was a strategist, prepared to play the long game.

[272] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Holloway to C. Holloway dated 1st October 1915.

[273] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Holloway to C. Holloway dated 1st October 1915.

> The Afrikaner nation is now divided, this is true. But at least we have one section which stands for the positive national growth of the Afrikaner volk! [Holloway's exclamation mark.] At the moment the heated party political battle obscures the real issues. But it is no longer about whether the National Party obtains a majority at the next election, or not. The fact is that the party will be strong enough to make their influence felt. And sooner or later, more and more Afrikaners will realise that blood is thicker than water, or that of the milk and water mixture of "reconciliation". The establishment of the National Party, and the national awakening that preceded it, is far more important than that of German South West Africa or the rebellion. These two were natural biproducts of this awakening. But from this awakening comes the results that we can expect, not only for the Afrikaners, but also for the English. The basis of party-politics is now very certain, and in the future, this certain base will sweep out of the way much of its abuse.
>
> As far as the war in Europe goes, it is my firm conviction that the interests of S.A. lie with a victory by the Allies. The entire German political project rests on coercion. The freedom and opposition to interference in our own business, which courses in our blood, is impossible under German control. The founding principle of the German character is obedience to higher authority, whether it is just or not. The ideal of their government is the "organisation of everything down to the tiniest detail". Whether their ideal is better than our one of freedom of everyone to live his life as he chooses, is now not the issue. The fact is that our ideals are so deep-rooted in us through our long historical development, that if there is someone constantly telling us "You can't do this or that", we are unable to change our thinking. … The fact that England has the concentration camps on their conscience, does not excuse the barbarism that Germany has committed to a country (Belgium) which never did her any harm.[274]

The sophistication of Holloway's thought, in a casual letter to his sisters, shows how he could become the trusted advisor to Ministers of Finance in the 1930s and 40s. His ability to hold multiple ideas in his head, to think through the constitutional implications of his opinions, and his willingness to play the long game, were surely attractive to cabinet ministers in need of advice.

[274] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Holloway to C. Holloway dated 1st October 1915.

6.10. Holloway's studies in Britain

While studying at the L.S.E., Holloway attended a lecture in 1915 by Keynes. In a radio interview in December 1967, Holloway, then an old man, recalled it as "one of the most brilliant lectures I ever heard … If I must sum up in one sentence the inspiration which I derived from that lecture I would say that Keynes demonstrated that honest money advances civilization and dishonest money retards it".[275] Holloway describes how "as a student of economics I was attracted at a very early stage to the role which money plays in safeguarding and advancing human welfare and civilization …".[276] One cannot help but be charmed by Holloway's nobility of spirit as he continued "It was the philosophy of money rather than the making or earning of money for my own benefit which gave the subject meaning to me".[277]

The only section of his Ph.D. that dealt with monetary policy was chapter 2, a fascinating account of the controversy regarding the paper currency, issued in the period of Dutch rule, having to be converted or redeemed under British rule. "The decision of the British Government to redeem the currency at 1/6 to the rixdollar encountered a storm of opposition, and for several years attempts were made to get the measure undone" (Holloway; 1922:18). Holloway cited this as a monetary cause of the Great Trek. We get a window into his thinking about money with Holloway's classical statement of the "sound money" theory in the following paragraph:

> Now the creation of what seemed to be wealth by a mere act of will was a very dangerous expedient and was likely to react with evil consequences on the people practising it. It was far too easy to assume that it really was wealth, or, as it was "purchase power", to go on creating it without regard to the ultimate consequences. The extent to which a country can absorb an inconvertible paper currency is limited to the demand for a circulating medium, or the extent to which this demand is not yet supplied.

[275] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, UFS, PV515, File 4-2-1, page 1.

[276] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, UFS, PV515, File 4-2-1.

[277] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, UFS, PV515, File 4-2-1, page 1.

> When that limit is exceeded the currency becomes inflated, and loses part of its value. In other words, its nominal value is more than its actual purchasing power, because the prices of commodities have advanced as a result of inflation. A larger number of units represent the same value, consequently the actual value of each individual unit is relatively smaller. Thus while the government, which in this manner creates what it considers to be more capital, does not, in fact, increase the available capital of the country. Its action has the effect of diminishing the value or purchasing power of the amount of currency held by each individual in that country. (Holloway; 1922:16)

Holloway noted that Sir David Baird, serving as Governor of the Cape,

> in 1809 … wrote to the Colonial Office, stating that, on account of the insufficiency of circulating medium, no works of improvement could be undertaken without either a grant from the British Treasury, or retrenchment in the expenditure on the Cape Regiment. … Many new public works were urgently required, and he considered that the only way in which means could be found for their construction was by the creation of a further issue of Paper Money. He therefore applied for permission to the Lords Commissioners of the Treasury for the stamping of Paper for the sum of Rds, 1,000,000. (Holloway; 1922:16).

Holloway then recounted that the British government "acceded to the Governor's request, subject to the following conditions" which included that half of it be "advanced to individuals through Lombard Bank, on the ordinary terms. The rest was to be used by the government for the construction of such necessary public works, as would produce sufficient revenue to cover the interest on the sums expended on them" (Holloway; 1922:17).

These historic facts gave an excellent opportunity for Holloway to discuss the "development money" position: that if money were created and employed in profitable investment, its creation might not be inflationary, particularly if resources in the economy are not fully employed. Holloway conceded that "a permanent gain resulted to the Colony in the erection of a number of public buildings" (Holloway; 1922:22). But he did not explore this line of thought, preferring to stay with a "sound money" explanation based on the Quantity Theory of Money (Fisher; 1911).

Holloway's later work shows that, although he had a near-fanatical commitment to "sound money" and its embodiment in the gold standard, he was open to ideas that ran counter to his own, and even to their quiet implementation into policy. In discussing the option of a reduction in the volume of the Rix dollar, in order to bring it in parity with other money, Holloway noted that

> the effect of the diminution of the amount of paper would have been to lower prices, and thus raise the value of the units of the currency. In the end therefore, the annuitants, the pensioners and the people with fixed salaries, would have regained what they had lost. But in the process of "appreciation", the same evils which had occurred when the value of the currency was on the downgrade, would have manifested themselves, cutting the other way. Debtors and mortgagees would have seen their debts augment automatically, payers of certain taxes would have had their liabilities increased, and on all sides hardships would have been inflicted on certain classes. (Holloway; 1922:23).

As a window into the lacuna in Holloway's thinking on monetary problems, it is telling that in considering the evils of deflation, he failed to mention any effects it might have on production. By contrast, most of the "development money" thinkers through the ages had focused on the effects of deflation on production (see Chapter Four above). A concern about inflation, and a dismissal of the evils of deflation, were the opinions that Holloway later passed on to his economically undereducated Minister of Finance, Klasie (N.C.) Havenga. Bruwer described Havenga's behaviour in the 1920s and 30s as follows: "For him devaluation was simply a question of taking from the one and giving to the other, something that he learnt from Dr J. E. Holloway".[278]

Holloway went on to be a lecturer and professor at the Transvaal University College (later the University of Pretoria) from 1919 to 1925 (Botha; 2001: 17 – 18). He was one of the most active proponents of a society which would discuss economic issues in South Africa.

> One of the earliest suggestions for a regular discussion of economic issues was that of Dr J. E. Holloway, professor at the Transvaal University College (later University of

[278]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page 13.

> Pretoria) in 1922 in a letter to the first Governor of the Reserve Bank, Mr W. H. Clegg. He attached a memorandum setting out his ideas more fully. He only had in mind a discussion group of a "small circle … of men who, by virtue of their knowledge of the theory or practice of the body-economic, could provide one another with the essential atmosphere of stimulation and constructive criticism." (Botha; 2002: 4).

Clegg became the first President of the Economic Society of South Africa (hereinafter ESSA), which was officially constituted by the Pretoria Branch on 24 April 1924 at a meeting at which Clegg read his paper, "The necessity for Economics" (Botha; 2002: 6).

Just after the June 1924 election, and before the Kemmerer-Vissering Commission was announced in October-November of 1924, Holloway gave a lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute", perhaps the still to be officially constituted ESSA, in the presence of Clegg.[279] In it, he gave a summary of the history of the gold standard in Britain – "England was the first country to select gold as its only standard of value. This was in 1816, towards the close of a paper money period similar to that, in which a great portion of the world finds itself today".[280] He failed to mention the obvious fact that the massive expenditure required during the Napoleonic Wars, and later during WWI, was what had forced Britain off the gold standard after 1797, and again after 1914. Holloway went on to quote Professor Cannan's cobbler analogy in criticism of South Africa remaining off the gold standard, as Bruwer had done earlier (see page 141).

Holloway went on to describe the way that South Africa was being abused by Britain, through Britain's control over South African gold. The ill-feeling generated by this abuse was the subject of one of Clegg's first communications, , on 31 August 1921, a couple of months after arriving in his post as the first Governor of the SARB, to Montagu Norman, the Governor of the Bank of England (see page 127). Holloway grasped basic mercantilist principles, "To begin

[279]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated.

[280]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 1.

with let us say that if South Africa had been in possession of a local mint when the Great War broke out, it would not have been necessary at all to depart from the gold standard. It is sufficiently doubtful whether adequate cause existed for the prohibition of the export of gold coin in 1915." He criticised the fact that this decision was not taken in parliament, but by "Government proclamation".[281] A further way in which British control over, and abuse of, South African gold was being perpetuated was by the "contract"

> which the Chamber of Mines had made with the Bank of England in regard to the disposal of the gold output. In accordance with this contract, standard gold was sold to the Bank at £3.17.9 per ounce. This was payable in British Sterling which came to mean British Paper Pounds. When Great Britain departed from the gold standard the probability that a Paper Pound might lose its equivalence with a Gold Sovereign had to be reckoned with.[282]

Holloway, with his characteristic flair for understatement, showed how Britain paid for WWI by underpaying for South African gold.

> The contract with the Bank of England … prevented [South African] mines from reimbursing themselves by getting the higher price for their gold … if the gold market had been free. In July 1919 the Chamber of Mines succeeded in freeing themselves of the contract entered into in 1914, and thereafter gold was again sold in the open market at the best prices available. Before this date a quantity of gold had been placed on the open market by the Bank of England as a trial sale, and had realised £9.3.5 per ounce, an increase on the mint parity of nearly 10%. … The premium on gold continued rising

[281]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 4.

[282]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 4.

> until on the 5 February 1920, fine gold reached the high water mark of £12.7.4 per ounce, an increase of a fraction under 50% on the mint parity.[283]

The existence of this massive gap between the pound sterling, the South African pound, and the open market price for gold meant that

> A considerable amount of gold therefore found its way across our borders, in spite of proclamations and police. The Secretary of Finance told the 1920 Select Committee on the Embargo on the Export of Specie that in the six months succeeding the freeing of the gold market the South African banks lost £1,330,000 worth of gold coin. A certain proportion of this was no doubt hoarded. But the bulk was smuggled out of the Union.[284]

Holloway explained that this drain had caused the reserves of the South African banks to fall to the "dangerously low figure of 6.8%". He continued:

> I am inclined to think that at this time it was only the general ignorance of the public on banking matters which saved South African banking from a colossal collapse, and South Africa from a stupendous crisis.[285]

That Holloway did not approve of the Select Committee that Strakosch dominated, nor of its "development money" arguments, is no surprise. But he did acknowledge that it reasoned from faulty and insufficient premises to substantially sound conclusions. The main principles advocated by it were:

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[283]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 5.

[284]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 6.

[285]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State y, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 6.

(a) That a Reserve Bank be founded to strengthen and control the banking system of the country, and

(b) That an immediate return to the gold standard was undesirable.

I accentuate the term immediate, for time was of the essence with the contract. At the time when the Committee framed its report, gold stood at a premium of about 20% over paper.[286]

Holloway demonstrated how he differed from other gold standard devotees, by his intelligent application of pragmatism. Maintaining the gold standard in 1920 would have meant that

> the banks could not have stood the strain for any length of time, … and a disastrous crisis would have been sure to follow. … What was required was a period long enough firstly to enable the banks to readjust their gold reserves and their liabilities in such a way as to enable them to stand the strain, and secondly to allow business houses, industrialists, farmers etc. to prepare by easy stages for a drop in prices of about 20%, which would follow from the restriction of credit and the reduction of the amount of paper money in circulation.[287]

Holloway was, of course, arguing along the same lines as the British "sound money" advocates of the time, who had to deal with a slightly lower deflation necessary to clinch pre-war parity in the UK. Holloway thought that a three-year period would be sufficient to achieve this.

Holloway used the analogy of a long-distance runner, trying to reach the finish line of the Union currency's parity with the gold price:

> In February 1923 the gold premium had dropped to about 3%. The same pace maintained a little longer, would have enabled the banks to face with equanimity the return to gold in July 1925. At this stage the runner required the encouragement of the

[286]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 7.

[287]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 8.

> supporters, whose cheers generally enable him to complete the last lap when it would be so much pleasanter to collapse at the side of the track, and give way to refreshing rest. Unfortunately the supporter failed him at the critical moment. The government, assailed by fears which I can only regard as illusory – fears that the producer of half the world's annual supply of gold would not be able to maintain a gold standard – gave notice of its intention to introduce legislation to postpone, for two more years, the return to gold.[288]

Just eight years later, history was to prove Strakosch, Farrer, Keynes, and the South African party right, and Holloway, Havenga, Hofmeyr, and Hertzog wrong, when South Africa, the producer of over half of the world's gold supply, was indeed forced off the gold standard in December of 1932.

Holloway ended on a rhetorical high note, arguing that the general public will say

> A plague on all your substitutes. Give us a good sound honest standard, which even if not perfect in every detail, is free from the machinations of the inflationist, gives no undue scope to the profit seeking motive of the merchant, relieves us of squabbles about wages between mine-owners and miners, and above all, reduces to its proper sphere that modern instrument of torture, the screw which the banker puts on.[289]

As Holloway was issuing his warning about monetary policy, the newly installed Pact government was writing to the State Department in the US, asking for a currency expert to advise them on this very issue. Holloway was about to meet his "sound money" mentor, and to get his way on monetary policy.

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[288]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 8.

[289]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 5/2/1 lecture entitled "The Gold Standard with Special Reference to South Africa" to the "Pretoria Branch" of the "Institute" undated, page 11-12.

6.11. Bruwer, Holloway and the Kemmerer-Vissering Commission

For a more general treatment of the Kemmerer-Vissering Commission, see Bordiss (2014). This chapter focuses on the roles of Bruwer and Holloway in this Commission, and in the broader development debate in which they participated, largely on the South African stage. Bruwer and de Kock gave testimony together on the same day, 12 December 1924, and, broadly speaking, spoke in sympathy with each other. Bruwer led the discussion along nationalist and anti-imperialist lines. Holloway, giving evidence six days later, on 18 December 1924, took a more theoretical approach, and did not appeal to US trade and investment in the mercantilist way that Bruwer did.

It is instructive that Bruwer did not mention in his memoirs two important contributions that he made to monetary policy debates: the first when interviewed by the Kemmerer-Vissering Commission on 12 December 1924, and the second in his discussions with John Maynard Keynes in February of 1944, regarding the Bretton Woods negotiations, which will be discussed later. Although Bruwer was boastful about his accurate prediction of a failed monetary policy in 1931-33, he supported this policy in his testimony before the Commission and, like Holloway, made pro-gold standard predictions which turned out to be disastrously wrong. He predicted, for example, that if Britain were to devalue in the future, there would be no adverse effect on the South African wool industry, as "the depreciation in the value of sterling will involve a higher price for all England's imports, and there is no reason why an essential raw material like wool, for example, should suffer" (Kemmerer-Vissering; 1925: 11). Although Bruwer supported the National Party-led Pact government's desire to return to the gold standard, independent of Britain, in 1924, there was still an integrity and continuity between Bruwer's thinking at the Commission, and that of his later desire to leave the gold standard. This consistency was perhaps best summed up in his statement in the middle of his testimony that "I am mainly interested in the industrial development of the country" (Kemmerer-Vissering; 1925: 10). Bruwer, and his fellow directors of the Board of Trade and Industry, were given less than a day's notice before they appeared before the Commission. The Labour Party representative, Frank Joseph Fahey, was given fifteen minutes' notice (Kemmerer-Vissering; 1925: 14).

What animated the testimony of Bruwer was his belief that South Africa was better served by returning to a gold standard *independent of Britain,* as this would open up the way for economic relationships with other countries, particularly the United States. Bruwer noted that the exchange rate between South Africa and Britain was determined, at that point, somewhat arbitrarily by the Imperial banks: "as far as South African rates are concerned there is only one quotation. Viz., London on South Africa. There are no direct quotations for South African exchange in New York or Berlin or Paris, for example" (Kemmerer-Vissering; 1925:9). The development of economic relationships outside the British Empire was a theme that Bruwer later picked up in his work on industrial policy. Kemmerer questioned Bruwer on the basis of the groundwork Bruwer had laid: "Your diamonds go chiefly to America? Yes. Your gold goes chiefly to America? Yes. Both, however go by way of London? Yes." (Kemmerer-Vissering; 1925:11). Bruwer also argued that there might have been more American investment coming into South Africa if South Africa were on a gold-based currency, allowing for a direct and stable exchange rate with the dollar. "The only way to get a true indication of the position of South African credit will be to throw the doors open to all countries" (Kemmerer; 1925: 12).

Bruwer and Holloway took different approaches to the question of devaluation, with Bruwer taking a "development money" view, and Holloway a "sound money" one. Kemmerer put it to Bruwer that there had been substantial deflation of prices in South Africa between 1913 and 1924. Of the "figures published by the League of Nations with regard to the extent to which prices … have declined toward the 1913 level. Out of the twenty-six countries cited, arranged in order of their approximation to the price-level of 1913, South Africa is first; it stands at the top of the list" (Kemmerer-Vissering; 1925:12). De Kock explained this, at least in part, through a developmental lens. Prices were usually high in South Africa in 1913, as a result of the high preponderance of imports, but "a large number of essential commodities, such as beef, mutton, bacon and ham, butter, cheese, eggs etc., which were regularly imported in fairly large quantities prior to 1914, are exported to-day" (Kemmerer; 1925: 12). Given that Bruwer battled to find much good in the SARB when outside the commission, it is surprising that, when asked by Kemmerer about its role, Bruwer responded, "if we had had a Reserve Bank in 1914 it might have done a good deal to curb the inflation that took place between the years 1914 and 1920" (Kemmerer; 1925:13). How a Reserve Bank, operating at a time of massive war expenditure, would have curbed inflation is something that Bruwer did not explain.

Directly after Bruwer and de Kock's testimony came that of Mr Frank Joseph Fahey, a representative of the Labour Party. He pointed out that the deflation that Kemmerer, and later Holloway, spoke of in glowing terms, was achieved largely by a forced reduction in the white wage rates, when the Smuts government and the mine owners crushed the 1922 strike (Kemmerer-Vissering; 1925:14). As evidence, Fahey cited the fact that coastal wages were substantially higher than mine wages, after the defeat of the miners' strike in 1922. Kemmerer then gave a classical explanation as to why comparing sectoral wages in a market economy was meaningless. Less than a year later, Keynes was to explain why sectoral differences in wages took place, and, as Fahey suggested, why they did matter, given that the equilibrating mechanism, which Kemmerer relied on, failed in practice. In *Mr Churchill* (1925), Keynes supported a sectoral approach. Fahey brushed aside Kemmerer's explanation, commenting that, "The result of the 1922 trouble was that labour organization was smashed and is only now recovering, and I would go as far as to say that there will never be any rise in wages corresponding to the rise in the cost of living unless labour is properly organized" (Kemmerer-Vissering; 1925:15). Fahey predicted labour unrest in Britain if a return to the gold standard there required a reduction in wages. Bruwer supported Fahey by warning that, "If South Africa goes back to a gold basis there would be great opposition on the part of labour to an attempt to reduce wages (Kemmerer-Vissering; 1925:16). Fahey's and Bruwer's words were prophetic, and Britain experienced the General Strike 1926, as Fahey predicted it would. By contrast, Holloway spoke admiringly of the downward pressure on wages that the mining companies implemented in 1922, as their responsible anticipation of the required deflation, in order for South Africa to return to the gold standard – "in short, the managers of the mining industry intelligently anticipated the coming fall in prices" (Kemmerer-Vissering; 1925:149).

Bruwer was known for his view that the SARB was not necessary as a central bank, and that a state bank should be established in its stead. Kemmerer was aware that both the Bank of England and the South African government wanted to kill the idea of a state bank, and avoided asking Bruwer any questions about it, choosing instead to ask Holloway these questions six days later. Unlike Bruwer, Holloway took the role of a central bank seriously, and when he was questioned about whether the SARB should assume a role of a state bank, he responded that, we should "confine the central bank to its main function and not give it duties which may be in conflict with its main duties" (Kemmerer-Vissering; 1925:153). We should "leave the central bank free to bestow all its attention on its main function of supporting and controlling the commercial banks" (Kemmerer-Vissering; 1925:154). In this respect, Holloway and

Bruwer switched theoretical antecedence. Holloway usually followed the arguments of "sound money" thinkers, and Bruwer those of "development money" ones. But Bruwer had a blind spot in his failure to take the roles of a central bank seriously. His argument was that, with most of the banking business in South Africa being conducted by large imperial banks, it was not necessary to support and control them. In this respect, it was Holloway who heeded the advice of Keynes in *ICF*, while Bruwer ignored it. Asked whether the SARB should get involved in short-term lending to farmers, Holloway concluded, "In any case, the central bank is not the proper body to provide this sort of credit, and the Land Bank should be given the first consideration before any new bodies called into being for carrying out these functions" (Kemmerer-Vissering; 1925:154). Bruwer failed to consider these functions more broadly, speaking of the SARB as a "very small institution which is trying to force itself upon an enormous institution like the Standard Bank" (Kemmerer-Vissering; 1925:13), ignoring the history of bank failures in South Africa prior to the establishment of the SARB.

With this exception, Bruwer's testimony before the Commission was basically along the mercantilist lines that Keynes grew to appreciate (see chapter 23 of the *General Theory*), whereas Holloway argued largely along Ricardian lines. Bruwer's first answer as to why he supported a return to the gold standard independently of Britain was "because of the fact that we are a gold-producing country" (Kemmerer-Vissering; 1925: 9). Holloway's answer to the same question was to separate the monetary options into a gold standard one, a sterling standard fiat currency option, and a floating fiat currency one. He then argued along Ricardian "sound money" lines for the gold standard. This involved a faith that the gold standard would "be of very material advantage to the community, because it will give us a more stable basis of wages and prices, and will give stability to production and to commerce also" (Kemmerer-Vissering; 1925: 146). Like Ricardo, and indeed Kemmerer, Holloway failed to appreciate sectoral imbalances caused by an incorrectly priced currency. "Production" and "Commerce" are indeed competitors for the affections of a currency: either weak and hence favouring production, or strong and favouring consumption (commerce via imports). This is something that the mercantilists understood well.

Bruwer went on to complain about abuse of the South African economy by its previous imperial masters. He highlighted the unfortunate requirement of maintaining a large trade surplus in order to pay for unduly expensive "invisible claims against her in the form of interest on capital invested here, shipping freights, marine insurance, and so forth" (Kemmerer; 1925: 9).

Vissering, having promised Norman at the Bank of England that he would oppose South Africa's return to the gold standard independent of Britain (Bordiss 2013), was now given the face-saving task of writing the obituary of the state bank idea that Bruwer had championed. De Cecco highlighted the importance of Kemmerer's victory for the emerging supremacy of the US over Britain. "Through the unofficial good works of Edwin Kemmerer, the 'Princeton Money Doctor', the gold standard was adopted by several Latin American countries. But the really crucial victory was obtained when, upon Kemmerer's advice, the Union of South Africa rejected sterling and adopted the gold standard" (de Cecco; 1985: 51).

In light of the above, Henry Strakosch's knighthood made perfect sense, especially when one considers his role in keeping South Africa off the gold standard with the Currency and Banking Act of 1920, reversing the decision of the Gold Committee of 1919. For as long as Britain and South Africa could be kept off the gold standard, London had a fighting chance of remaining the centre of world finance through the gold exchange standard. Once South Africa followed Kemmerer's advice to return to the gold standard, independent of Britain, London's days as a financial world centre were numbered.

The American Consulate General in South Africa was quick to report to the State Department as soon as the proposed return of South Africa to the gold standard, independent of Britain, was raised in Parliament. On the 1 August 1924, the day after a speech by Havenga, the Minister of Finance, the US Consulate reported that Havenga had said that,

> the restoration of the gold standard, not only in this country but in the world at large, is essential to our wellbeing as a gold producing country … This feeling appears to have been stimulated by the Dawes Report and the recent report on the possibilities arising out of the Dawes report by the Advisory Council of the Federal Reserve Board of the USA which brings out the possibility of a serious challenge to the position of the Pound Sterling as an international currency through the establishment of a second great world currency on a gold basis.[290]

[290]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 1 August 1924, pages 1-2.

In this way, Havenga hammered in one of the first nails in the coffin of Pound Sterling as the world's reserve currency.

6.12. Bruwer's opposition to a Central Reserve Bank and advocacy of a State Bank

In Bruwer's memoirs the only mention of the Kemmerer-Vissering Commission is on page 89 of the section dealing with policy matters, where he discussed how his agitation for a State Bank had made Havenga his enemy:

> This is how I, right at the beginning of the first National Party government, destroyed my chances with Havenga, and to kill my State Bank proposals, the Minister after the Kemmerer-Vissering Committee (which the government appointed at the beginning of 1925 to advise on the return to the gold standard) delivered their report, gave Dr Vissering the instruction to give advice about the Reserve Bank, and particularly the formation of a State Bank in the Union. Dr Vissering destroyed the idea of a State Bank "roots and branches" – the same Dr Vissering that, as President of de Nederlandsche (Central) Bank, in 1931 lost 80 million gulden for the bank as a result of his large investments in London.[291]

Bruwer got the dates of the Kemmerer-Vissering Commission wrong. It commenced hearings in December 1924, the month that Bruwer and Holloway testified. But he was quite correct about the determination of Havenga to kill the idea of a State Bank.

Aside from the fact that the idea of a state bank, independent, or instead, of the SARB, was unpopular with and unwelcome to Havenga, Hertzog, and the senior Union Treasury officials; it was also unpopular with Clegg and Norman. In correspondence between Norman and Clegg in June 1923, Norman offered, in the strictest confidence, that the Bank of England would assist with any rescue of the *National Bank* on the strict condition that the independence of the SARB was maintained, in order to prevent the establishment of state banks, as opposed to

[291]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, untitled but dealing with policy page 90.

central banks, in the Empire and to maintain the prestige of British and colonial banks.[292] Months after the Pact government came to power, and given Bruwer's advocacy of a state bank prior to the 1924 election, Clegg wrote to Norman on 17 September 1924, discussing this issue. Clegg noted Bruwer's obsession with the Commonwealth Bank in Australia, which was a state bank, rather than a central bank, at that stage. Clegg expressed his disappointment that the Commonwealth Bank of Australia was not operating as a central bank and suggested that it was "absurd that South Africa would take a solitary step in that direction".[293] After the Kemmerer-Vissering Report, the only piece of good news for Norman was the fact that the idea of a state bank had been defeated. In a letter dated 1 April 1925, from Clegg to Norman, the various parties to the debate were discussed, including Bruwer. In the descriptions by Clegg, it is clear that whether Clegg had a favourable or unfavourable opinion of the various characters depended on whether they were for or against the idea of a separate state bank.[294]

[292] Montagu Norman Papers, Bank of England Archives, file OV37/20. Telegram from Norman to Clegg dated 11 June 1923.

[293]Montagu Norman Papers, Archives of the Bank of England, file OV37/21, letter from Clegg to Norman dated 17 September 1924.

[294]Montagu Norman Papers, Archives of the Bank of England, file OV37/22, letter from Clegg to Norman dated 1 April 1925.

6.13. Summary and Conclusion

This chapter started with Bruwer in favour with the newly installed Prime Minister, Hertzog, and his National Party. Bruwer engaged in the public debate on monetary policy. His instincts lined up with those expressed in the National Party manifesto that led to Hertzog winning power. His powers of rhetorical persuasion in the press, and in person in winning over John X. Merriman to the Nationalist position on monetary policy, were greatly appreciated by Hertzog. Once Hertzog was Prime Minister, Bruwer would be the first highly-qualified Afrikaner economist to get a senior post in the state. That he was married to the daughter of a senior Boer War officer, Commandant van Rooyen, did not hurt Bruwer's social standing in government circles either.

Holloway was a quiet professor, who came from an unknown family, and who had stayed largely out of the press. When the National Party came to power, he was still in academia, yet to play his part in the future of the state. But there is a world of difference between political activism in opposition and serving a government in power. In the next chapter, that difference becomes abundantly clear. Bruwer, the eldest son of a rich farmer, and now activist against British influence in South Africa, was to fall from grace and lose his position. The quiet Professor Holloway was to be brought in, behind the scenes, to assist the Minister of Finance. Holloway's eighteen-year career as the most influential civil servant on economic policy in the middle of the 20th century will be discussed in the next chapter (Botha; 2002).

CHAPTER SEVEN: BRUWER AND HOLLOWAY AND THE SOUTH AFRICAN MONETARY POLICY DEBATE (1924-31)

7.1. Introduction

It was one thing for Bruwer to relate to politicians when they were in opposition, but once the National Party came to power, firstly in the coalition government from 1924 until 1929, and later from 1929 until 1933 when it was ruling alone, the dynamics changed. Bruwer and Holloway handled this changed reality completely differently. In opposition, prior to the June 1924 election, Bruwer's background, temperament and aims suited the National Party well. He was appreciated as the husband of the daughter of one of the senior martyrs of the Maritz Rebellion, and as a fearless Afrikaner Nationalist, taking on the SARB and the Treasury in the press, and showing them no mercy.

In opposition, no one noticed Holloway, the quiet, thoughtful academic without prominent political friends. But in government a completely different temperament and set of skills were required. It was apparent that, although Bruwer was an excellent monetary policy activist, he did not make the transition to ideal civil servant.

Holloway, on the other hand, may have been less visible in the public domain before the Pact government of 1924, but his steady dependability and his self-discipline in staying in the background and not contradicting those in government led to his appointment as Havenga's advisor sometime in 1931.

7.2. A. J. Bruwer – Disruptor of British Imperial power 1924 – 1931

Bruwer continued his criticisms of the SARB after 1924,but was then criticising an institution for which a National Party-led government was responsible. His criticisms were consistently anti-imperialist, yet theoretically diffuse. They are reflected in Bruwer's 15 October 1927 article in *South African Nation*

> Central Reserve banking took South Africa by storm, we did not evolve the system; it swallowed us. No attempt was made on the part of our legislators to study the various systems of central banking, or banking and currency control, existing in other and older

> countries in order to pick and choose there from what was best for us. There was serious currency and banking trouble in 1920 due to the policy of drift on the part of the Treasury (i.e. Edmund Hugh Farrer, Companion of the Order of St. Michael and St. George); there was the meteoric rise of a certain Mr Henry Strakosch, up till then unknown in the field of banking and economics and now retired to the degree of authority which he originally held; there was the parliamentary select committee appointed on the 16th April 1920, to report on the highly technical question of the embargo on the export of specie … and the establishment of a Central Reserve Bank on the lines of the Federal Reserve Banks in the United States of America; and in 1921 the South African Reserve Bank came into being.[295]

Bruwer went on to give a brief history of central banks, including the Riks Bank of Sweden, the Bank of England, the Bank of France, and Germany's Reichsbank, to make his point that they evolved over centuries to perform the functions of a central bank.

> It is only by degrees and reluctantly that the management of the Bank of England has been led to recognise the fact that the Bank is under obligations essentially different in kind and in range from those resting upon any of its neighbours'. … The Bank of England thus developed [underlined in the original] into its present powerful position in the course of centuries and it maintains that position in spite of the fact that it is surrounded by powerful banking institutions whose aggregate business and liabilities total many times its own.[296]

But why should South Africa in 1920 not have implemented what was then the most up-to-date central banking policy? Why should we have copied the evolutionary path of the Bank of England, or the Riks Bank of Sweden, for over two centuries? Bruwer himself conceded that

> the Federal Reserve Banks differ from the Central Banks of England an [sic] Europe in the fact that they were superimposed upon a fully developed system of banks and this

[295]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 127.

[296]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 128.

> applies to our own central institution: they did not grow up with the other banking institutions in their particular localities.[297]

Bruwer conceded elsewhere that the Federal Reserve System was necessary, given the preceding banking crisis (of 1907).

> Why then establish a central Reserve Bank for two or three banks, and then one whose eyes were always looking at London? In the US it was necessary to have a Reserve Bank system because there were about 30 000 individual banks when the system was established in 1914, and because the number of banks and banking policies sometimes led to chaos.[298]

Aside from his concerns about it being run from London, for the benefit of London, Bruwer offered no other credible reason for his objection to adopting the latest central banking policy. Regarding his activities in 1927, Bruwer reported in his memoirs that

> I pleaded strongly for the establishment of a South African State Bank, instead of the SARB; the Union already had two imperial banks, the Standard Bank (whose capital was held 100% overseas) and Barclays Bank (Dominion, Colonial and Overseas). … Rather there should be a State Bank, which could take an independent position as opposed to the two Imperial Banks. I set out this position for the first time in the 5 July 1924 edition of Dr Donges's *South African Nation*. … I followed up with an article about the Commonwealth Bank of Australia (a state bank that did a lot for the development of Australia, notwithstanding the opposition of the other banks).[299] In comparatively undeveloped countries, [they would] be better served by allowing the

[297]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 131.

[298] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Untitled Section page 89.

[299] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Untitled Section page 90.

central banks concerned a greater measure of freedom in transacting commercial banking business.[300]

Ironically, Clegg also took this view and fought a battle with his ex-boss, Montagu Norman, and the commercial banks, for the right to compete with commercial banks for business, including the business of the state. Norman's opinion prevailed, and Clegg's Reserve Bank did not compete with commercial banks.

Without any awareness of theoretical contradiction or irony, Bruwer at that time took the ultimate "sound money" position, arguing that, "I maintain that one of the chief objects of central banking today is the maintenance of the gold standard – which means an attempt to preserve the value of gold".[301] But Bruwer appeared blinded to his theoretical inconsistencies by the consistency of his anti-imperialism – "The gold standard is not an Imperial question: it is a world question".[302]

He cited his opposition to the "Bank-of-England-dominated South African Reserve Bank" as the reason for his falling foul of the "Milner-men dominated Treasury".[303] Bruwer acknowledged the difficult position that South African banks were in after the First World War. "Their cash reserves were only 7.5% on 31 December 1919", and they found themselves on the wrong side of an arbitrage trade on the South African pound, as these banks were on the gold standard, and it was thus profitable to demand gold from them, the price of which was higher outside of South Africa.[304] Bruwer went on to enumerate the increase in bank notes, from £24 040 000 in 1914 to £45 597 000 in 1919, and suggested that somehow the banks had been reckless and responsible for the banking crisis of 1919. While blaming the banks, Bruwer

[300]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 134.

[301]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 135.

[302]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 135.

[303]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 116.

[304]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 117.

took no account of the extraordinary war demand creating the extra money supply, nor did he deal with the currency differential between the British pound, which had weakened, and the South African pound which was now dysfunctionally strong.[305] In this he takes a similar position to Arndt (1928:422-428).

Bruwer was not entirely critical of Clegg's Reserve Bank. He acknowledged that Clegg had done good work in developing a money market in South Africa.

> Mr Clegg has come to an arrangement with the Treasury to issue three months' Treasury Bills through the Reserve Bank to parties who have temporary surplus funds. Such Treasury Bills are then rediscounted by the Reserve Bank on certain terms if such party is anxious to get his money back. This saves the expensive process of sending surplus money to London for temporary investment.[306]

With hindsight, it is clear that the SARB of the 1920s and 1930s was instrumental in developing the money market in South Africa. Bruwer, writing in the 1970s, does not acknowledge this fact.

In 1927, with the SARB firmly established, Bruwer went on to make eight recommendations for its reform:

1. Its name should be changed to "Bank of the Union of South Africa".
2. The Board of Directors should be reduced to seven members, all appointed by the Governor-General, with the Finance Minister being ex officio chairman.
3. It should only start to concern itself with central banking functions after it had established itself well as a State Bank.
4. The requirement to hold British Treasury Bills should be abolished.
5. The SARB should handle the banking of the government.
6. It should be permitted and encouraged to invest in the paper of South African government securities, and even those of its parastatals.

[305]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 165.

[306]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 139.

7. It should establish a branch in London (Clegg also wanted this) but limit the holding of gold reserves abroad to a minimum.
8. It should abandon its passive approach to exchange rate management and manage more actively.

The government's power over the SARB had strengthened between the Currency and Banking Act of 1920 and the Amendment of 1923, as the number of directors had shrunk, and the percentage of government-appointed representatives increased as a result. Bruwer's 1927 article came to the attention of *The Economist*, and on 29 October 1927, the periodical (at this point owned by the "confirmed bachelor" friends, Henry Strakosch and Brendan Bracken) responded with a favourable review:

> A paper was recently read before the Johannesburg branch of the Economic Society on 'Central Banking in South Africa'. The lecturer was Dr A. J. Bruwer … He proved to be an exceptionally trenchant critic, his complaint being summarised in the statement that the South African Reserve Bank was merely copied from similar institutions elsewhere, without regard to the suitability of its methods in South Africa (*The Economist* 29 October 1927).[307]

All the attention that Bruwer's 1927 article received caused the "dolls to dance" in the Treasury and the SARB, and Clegg dedicated half of the annual report of the SARB in 1928 to answering Bruwer. The SARB Governor's speech was printed in full in the "Company meetings" section of the *Cape Times* on 19 May 1928. In his response to Bruwer's 1927 criticism that the SARB should be competing with the commercial banks as a State Bank, Clegg noted that "according to the doctrine I have laid down, a central bank holding the reserves of the other banks, should not do a general banking business in competition with them". Clegg had privately pushed for the SARB to have this right to compete with the commercial banks for business, complaining to Norman that the Reserve Bank was being "tied up in such a way that effective competition is very difficult".[308] But Strakosch conveyed to Clegg the Bank of England's position that

[307] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 143-144.

[308] Montagu Norman Papers, Bank of England Archives, File OV37/21, letter from Clegg to Norman dated 24 November 1924.

central banks were not to compete with commercial banks, and in a letter to Strakosch on 26 November 1924, Clegg confirmed agreement on this position that there should be no competition.[309]

Later in his 1928 report Clegg dealt with what he called "the main error which underlies the lecture, viz., the notion that the bank has sent huge sums of money to London and invested it there" (*Cape Times* 19 May 1928). Clegg summarised Bruwer's criticisms that capital should be invested and available within South Africa, and not sent to London unnecessarily. Bruwer's concerns were those that had animated the mercantilist writers centuries earlier, and his advocacy of holding capital within a country drew praise from Keynes in chapter 23 of the *General Theory* (1936). But Clegg took a position similar to that of David Hume (1752) in his criticism of mercantilist thinking, noting that the reason for the London balances was that "it [the bank] obtains balances in London in the same way that any bank ordinarily obtains funds in another centre, viz., by financing exports to that centre. The money for the exports is received in London and the money for the imports is paid in London, as the chief banking centre of the world" (*Cape Times* 19 May 1928).

But Clegg's entirely apolitical explanation is not borne out by the experience of the SARB during WWII. Chapter ten of this dissertation will detail below a vastly different South African reserve position that greatly upset Keynes in the Treasury in the early 1940s. If the prevailing imports and exports were the only explanation for the holding of foreign reserves, as Clegg (1928) and Hume (1752) would have us believe, then the enormous anomaly in the reserve balances between those in the 1920s, and those in WWII, remain unexplained. If an explanation in line with that of Bruwer (1927) or Mun (1664) is entertained, then the excellent financial condition of the Union in WWII is well understood. As Mun (1664) and Bruwer (1927) explained, considerably higher levels of capital within the borders of a country materially improve capital formation in national investment.

[309] Montagu Norman Papers, Bank of England Archives, File OV37/21, letter from Clegg to Norman dated 26 November 1924.

7.3. Bruwer as Chairman of the Board of Trade and Industry

As promised by Hertzog prior to the 1924 election, Bruwer was offered a position as director on the newly reconstituted Board of Trade and Industry. The chairmanship of the Board was first offered to the Natal sugar baron and SAP MP, Edward Saunders, but when Saunders declined, it was given to Bruwer, by the newly appointed Minister of Mines and Industry, Advocate Fredrik William Beyers.[310]

Bruwer moved to Pretoria to commence work as the Chairman of the Board of Trade and Industry in October 1924 and initially enjoyed a good relationship with Havenga. When the Bruwers were settling into their new home at 1090 Schoeman Street, Pretoria, relationships with his colleagues were good. Bruwer described Jack and Tienie Holloway as "beloved friends". Bruwer's daughter, Salome, and Holloway's daughter, Alida, were both younger than the official school-going age but wanted to start school early. The Director of Education, N. C. Hoogenhout, who lived across the road, joked that they should make a presentation to him in his offices, and that he would consider their application. This was duly performed, and the two girls started school early.[311] But this idyllic start to the relationship with Holloway was not to last.

When Bruwer took office, he characterised the then industrial policy in South Africa as being entirely focused on gold mining.

> Economic policy regarding development gave first priority to gold mining, in which British capital was heavily invested. Farming to feed those on the mines was accepted into policy consideration, and the development of the Railways also suited Britain, with tariffs for British manufactured goods from the coast to the mines often cheaper than tariffs on South African goods going to the coast. The Mine bosses were against industrial policy because they wanted to keep their costs of production as low as possible. Industrial policy did not rest with the Minister of Mining and Industry (under

[310]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My Participation in politics page 26.

[311]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section II My Contact with Personalities page 26.

> whom it technically fell), but with the Minister of Finance, which meant in practical terms that it fell into the lap of the Secretary of Finance.[312]

Bruwer had built a name for himself as a proponent of South African national development. "In my opinion a poor white was an unemployed Afrikaner, and it was for this reason that I fought so hard for the development of our Trade and Industry"[313] he said in his memoirs. On the 26 January 1924, *The Economist* published a review of Bruwer's *Protectionism in South Africa.* It commenced "Mr. Bruwer's book, written in America as a thesis for the Ph.D. Degree of Pennsylvania, is a dispassionate review of the case for Protectionism and Imperial Preference"[314] but emphasised that "Free traders will find in it much to confirm their view that inter-Imperial preference tends towards inter-colonial friction, … as a patriotic South African he insists on the right of his country to develop her own industries even by protection".[315] Bruwer assumed that this national development would commence, with the National Party, which he supported, now leading the Pact government. Bruwer expected that the British civil servants in the Treasury would now take instructions from the new political masters.

> From the numerous discussions that I had with General Hertzog, Kommandant C. T. E.Wilcocks, Oom Charles Fichards, Louw Steytler, Jan Wessels and many others, I had the idea that the protection for our industries and the promotion of trade with foreign nations was priority number one for the National Party.[316]

What he soon discovered was that the new Minister of Finance, Klaas Havenga, was quite content to take advice from the British civil servants in the Treasury. Bruwer, then Chairman of the Board of Trade and Industry, found himself opposed by powerful Treasury officials with

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[312] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 30.

[313]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 31.

[314] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 36.

[315] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 37.

[316] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 68.

a commitment to British imperial monetary, industrial and trade policy. Although his board was answerable to the Minister of Mines and Industry, Fredrik William Beyers, tariff policy (the main task of the board) fell under the Treasury. Mr Owen-Smith was responsible for this policy at Treasury and was a "brash proponent of British Imperial preference in our tariff policy. He was quickly joined by Jack Heddon B.A. (Oxon)".[317] The head of Treasury, the Secretary of Finance, was a "Milner Kindergarten man" by the name of Edmund Hugh Farrer, Commander of the Order of St. Michael and St. George. To highlight where Farrer's loyalties lay, Bruwer inserted that title throughout his memoirs, every time he mentioned Farrer's name. Farrer was familiar with Bruwer's tariff policy ideas, which sought to achieve South African industrial development, and put Bruwer firmly in his place, declaring that "the lesser (South African Afrikaner nationalists) cannot make a treaty with the greater (Great Britain)".[318] Similarly, Owen-Smith told Bruwer that "a subordinate cannot make a treaty with his superior".[319] Farrer went on to explain that there was no need for a change in policy, as the country was recovering. Bruwer said that he did not answer him, because he thought that there was a new (nationalist) leadership of the country.[320] Bruwer first realised that Havenga was not going to rock the British-run Treasury when he met with Havenga shortly after his appointment and, in response to Bruwer's tariff proposals, Havenga told him that "you can use tariffs here and there to advance (local) industry, but no drastic changes".[321]

Joubert Botha (1973) surveyed industrial policy and development in South Africa. He noted that "until the beginning of this century (the 20th century), South Africa was seen primarily as a source of raw materials, especially to Britain" (Botha; 1973: 331). Despite the absence of active policy, industrial development grew substantially during WWI, with employment

[317] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 38.

[318]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My Participation in politics page 29.

[319] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 38.

[320]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My Participation in politics page 30.

[321]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My Participation in politics page 29.

increasing in this sector from 101 178 to 175 520 (Botha; 1973: 333). But a 1919 advisory board had resolved that "the general initiative in industrial affairs should be left to private enterprise" (Botha; 1973: 334). However, Botha noted that "economic nationalism became more explicit and assertive and gained an immediate momentum when the new Government took office in 1924" (Botha; 1973:334). Bruwer was at the forefront of these initiatives, making good use of his Ph.D. on Protectionism in South Africa to draft a "slim Report … [of 8 pages] [which] reflected the doctrinal views of the new Government in its recommendations for tariffs reforms" in December 1924 (Botha; 1973:335). Botha quoted an MP who, during the parliamentary debate on industrial policy, quoted Abraham Lincoln, "If I send a thousand dollars to Europe for rails, Europe will have the dollars and we shall have the rails, but if we make the rails in America we shall have both the dollars and the rails" (Botha; 1973:335). There were two principles that Bruwer sought to introduce into policy. The first was that infant industry, which could be assisted by tariffs to become well-established, should enjoy that support. The second was an attack on British Imperial Preference, seeking the ability for South Africa to allow for reciprocally lower tariffs with any foreign country, not just those in the British Empire.

Bruwer did not find getting his Protectionist legislation enacted plain sailing. Given the fact that it was in line with the Nationalist election promises, Bruwer expected his *Report on the Revision of the Customs Tariff* to be well received by the National Party-led government. When he went into Prime Minister Hertzog's office to hand him the report, he was surprised to find Havenga sitting with Hertzog. Hertzog told Bruwer "Your Minister of Finance says that the Tariffs laws must stand over to next year; there is no time to deal with it in this sitting".[322] When Bruwer pressed him, Hertzog responded that "we cannot touch British preference now, … it can wait".[323]

Directly after this encounter, Bruwer met with his Minister, Beyers. Bruwer explained what had just happened in Hertzog's office, and Beyers asked, "Don't we need to give this tariff

[322] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 65.

[323] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 65.

report more time?" Bruwer responded, "No".[324] Beyers then brought Fredric Creswell, leader of the Labour Party, and Deputy Prime Minister, to Bruwer, to hear first-hand Bruwer's account of the earlier meeting with Hertzog and Havenga. Later that day, there was a cabinet meeting, and thereafter Havenga informed Bruwer that "the cabinet has decided to go ahead with the new Tariff laws".[325]

The (opposition) South African Party fought the legislation tooth and nail, but the Tariff Act was passed into law in 1925. Bruwer implemented the ideas that he had set out in *Protectionism in South Africa*, including his plan to break British Imperial preference in the Tariff Act of 1925. He explained that:

> I introduced the concept in the Tariff Act of 1925, that certain tariffs could be reduced in the event that another country reduced their tariffs on South African goods on a quid-pro-quo basis. But a third country could not demand that this reduced tariff apply to them, unless they engaged in a quid-pro-quo reduction in tariffs [with South Africa]. [This Act] took the place of the British Imperial Preference system that Milner put in place in the Inter-Colonial Conference of 1903 in Bloemfontein, which forced on the two Boer Republics a system where a foreign country would never be treated with the same tariff system as Great Britain, on precisely the same basis of treatment as the countries outside the Commonwealth. And so I made allowance for a maximum and minimum tariff, a general tariff for foreign countries and a preference tariff for the British Commonwealth.[326]

The "American Foreign Service Report" of 6 April 1925 from the US consulate to the Department of State reported:

> The cleavage between those who place store in the Imperial connection and those who have joined under the slogan "South Africa First" was still further widened toward the

[324] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 71.

[325] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 72.

[326] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 75.

> end of March by the publication in the press of the rumour that the new tariff measure soon to be brought forward would omit Imperial preference.[327]

The *Cape Times* argued:

> It would antagonise the best customer of the Union. It would be a deliberate blow to the nation which is our partner in world affairs. Every true interest of South Africa, material or patriotic or sentimental, would be injured by such an attack on the preference. … South Africa had grown up under the shelter of the British fleet, the TIMES continued. Her progress had been due to the wealth – capital, in brains, in enterprise, in experience – that Great Britain had lavished upon her.[328]

Owen-Smith and Heddon of the Treasury pushed to insert pro-British amendments to the Act, and succeeded.[329] Beyers and Bruwer then worked hard to develop 'most favoured nation' trade agreements with countries outside of the Commonwealth. Beyers felt that, for sentimental reasons, the first agreement should be with the Netherlands, and those were the first negotiations that were commenced. As it happened, the first agreement was with Germany in 1928, followed by the Netherlands in 1929.[330]

Bruwer inserted a provision in article 8 of the German trade agreement which stipulated that "any additional preference which was given to a Dominion in a tariff, Germany would also be entitled to".[331] The official South African government response was that this was "an

[327]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 6 April 1925, 4-5.

[328]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 6 April 1925, 6. Presumably the *Cape Times* lamented the growth of the South African manufacturing sector that followed the Tariff Act of 1925.

[329] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 75.

[330] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 76.

[331] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 77.

inexplicable 'fault' [but] actually the Milner watch dogs in the Treasury were not awake enough [to pick it up in the draft, before it became law]".[332]

> As soon as Fredrik William Beyers was out of the cabinet (in 1929) the sheep-like Attie Fourie called me into his office to tell me that article 8 of the German Agreement must be changed so that Germany was not entitled to any preferences of the British Commonwealth. When I asked him what was the point of Mr Beyers and I working so hard fighting for article 8 against the opposition of Havenga and his Milner men, he responded "You have no idea how strong the feeling in the cabinet is against the provisions of article 8".[333]

The report from the US consulate to the State Department, dated 5 May 1925, noted that:

> through the conclusion of tariff agreements with countries outside the Empire South Africa might place British trade in certain articles in an even less favourable tariff position than that of, say, Germany. The government has felt the storm of protest, and by two recent announcements has tempered considerably "the resounding slap in the face of old John Bull" as one Opposition paper has characterized the tariff proposals. … The Prime Minister announced in Parliament April 29 that … Great Britain and the Dominions will be consulted in advance with regards to proposed tariff agreements with countries outside the Empire.[334]

Although I have found no evidence that any Americans were involved in the drafting of the Tariff Act of 1925, the English-medium press in South Africa sensed that it came at the time that US influence was waxing, as British influence was waning.

> It is even suggested that American officials influenced the Board of Trade and Industries in framing its proposals. One paper speaks of the tariff as being stamped on

[332] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 77.

[333] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 77.

[334] US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 5 May 1925, page 5.

> every paper "Made in the USA". Another paper – the CAPE ARGUS – writes "the so-called re-arrangement of the British preference is the worst that could have been devised from the point of view of British trade interests. The re-arrangement has been effected in such a manner as to give America everything that she wants. … Why in the world America should be specially favoured is a bit of a mystery"[335]

The Tariff Act of 1925 did not preference the US especially. From the vantage point of almost a century later, the more obvious question is why the *Cape Argus* was so concerned about British interests? The US Consulate General's report concluded that "any suggestion of undue influence by American officials is baseless".[336]

In the report dated 13 July 1927, the consulate complained that "The pronouncedly pro-British press of South Africa are still moderately anti-American. They seem to feel that it is not only necessary to laud British institutions and manufacturers but to criticise and sneer at people and products of Britain's strongest rival."[337]

As long as he still enjoyed the confidence of Hertzog, notwithstanding his defiance of Havenga to get the Tariff Act of 1925 passed by Parliament, Bruwer did much to protect and promote production in South Africa. An example of his excellent work, and Herzog's appreciation of it, was the report on *Custom duties on Wheat and Flour* number 104, dated 14 January 1930. Bruwer explained in his report that, in August 1929, "representations for increased protection were made … by a large deputation of wheat growers" from the South West of the Cape Province, and later from a similar group of wheat farmers in the Transvaal, asking for a higher duty on wheat "in order to protect the local wheat growers against the importation of low-priced wheat from Australia and the Argentine".[338] What followed was a thorough and well-reasoned report, weighing the interests of the consumer and the necessity of keeping the wheat

[335]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 5 May 1925, page 7.

[336]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 5 May 1925, page 7.

[337]US State Department microfilm, National Archives, College Park, Maryland, NADS RG 59 848a. 51/121-131, 13 July 1927, page 21.

[338]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, Report by Chairman of Board of Trade and Industries 14 January 1930, report No 104.

farmers in business. At its conclusion, after seventeen pages of argument, the report recommended a modest increase in the customs duty.

Further evidence of the confidence that Bruwer still enjoyed with Hertzog, even after Beyer's departure from the cabinet, and of Hertzog's general agreement with Bruwer's production-focused tariff policies, can be seen in an exchange of letters between the Cape Fruit farmer, P. A. Molteno, resident in London, and Hertzog, between March and June of 1930. Molteno started the correspondence on 14 March 1930, warning Hertzog of the "dangerous position" that Australia was in thanks to her "Labour government … squandering large portions of [borrowed funds] on unproductive experiments". He then went on to the purpose of his letter, which was to complain about the high tariffs being implemented in South Africa. "I see immense additions to your Tariff being constantly made. Your Board of Trade seems to be composed of men of no practical experience of business, advocating enormous increases in duties or the imposition of new duties" [339].

Hertzog passed a copy of Molteno's letter to Bruwer, who produced a detailed rebuttal on 23 July 1930, noting that special provision had been made to keep the tariffs on the inputs to South African industry as low as possible. Bruwer recalculated the burden on the taxpayer and found that the true figure was only about a quarter of that stated by Molteno, and that a large portion of these tariffs were on items that only the rich could afford. He calculated the tariffs as a percentage of total imports for each of the five years that the Hertzog government had been in power, concluding that the average percentage was 13%. Bruwer concluded, "A general tariff of level of 13% for a country which must obtain a substantial part of its tax burden from tariffs and for a country seeking to protect its infant industry cannot be described as excessive at all".[340]

But Hertzog did not wait for Bruwer's memo to respond to Molteno, stating in his reply, after the pleasantries, that "I cannot help feeling that if you had been in possession of the real facts, you would not have been so full of misgiving and anxiety". Hertzog then pinned his colours to the mast, stating that

[339]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, letter from PA Molteno to Hertzog dated 14 March 1930.

[340]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, memo Bruwer to Hertzog 23 dated 23 July 1930.

> I am no free-trader as far as South Africa is concerned, and believe in the necessity of developing the industrial side of our national life more than what has been the case in the past, I look upon protection, within the limits necessary to establish a health [sic] equilibrium, as vital to our development. The only question, therefore, as far as I am concerned is, are we overdoing it. But you will forgive me if I say that the facts upon which you seem to base your opinion, are incorrect.[341]

Hertzog challenged Molteno on his assertion of "immense additions to your Tariff being constantly made", responding that this was "clean off the rail. A mere repetition of party-political misrepresentation cabled over from here for British consumption", and pointing out that although the imposition of tariff duties had in several cases been shifted from one article on to some other, "no new imposition had been made with a view to increased revenue". Hertzog also defended Bruwer and his Board of Trade and Industry. "These men may err at times, but there is not the least doubt that they have so far acted with the greatest circumspection and care and stand acknowledged by all impartial men in South Africa as a very efficient body".[342] He ended his letter, "I am afraid you are too good a free trader to be quite unprejudiced in your opinion re the policy followed by the current Government",[343] and contrasted positively the favourable position of South African farmers, enjoying tariff protection and subsidies, to that of British farmers abandoned to the whims of the international market under the British free trade regime.

Bruwer's work on protectionism is included in this thesis, because it is central to the trajectory of his career in the state, which came to an end over a monetary policy debate. As monetary policy is central to this thesis, and as Holloway's views on protectionism are not central to its narrative, they are excluded from this dissertation. Holloway's distrust and dislike of Protectionism, the Holloway Commission of 1935, and his 1949 commentary on a

[341]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, letter from Hertzog to Molteno 26 May 1930.

[342]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, letter from Hertzog to Molteno 26 May 1930.

[343]James Barry Munnik Hertzog Papers, National Archive, Pretoria, Collection A32, Box 43, letter from Hertzog to Molteno 26 May 1930.

Memorandum by the South African Federated Chamber of Industries, are all interesting in themselves, but beyond the scope of this work.

7.4. Bruwer on borrowed time 1930-32

Bruwer was a marked man as a result of his defiance of Havenga in 1925, notwithstanding the support of Hertzog for him as late as 1930. In addition to Hertzog, he still had supporters elsewhere in the National Party, and in the press. When he was not initially on the list to attend the 1926 Imperial Conference in London, Bruwer presumably used his contacts to have himself added. He reported in his memoirs:

> There is pressure on the government from *Die Volksblad* and Mr Markus Viljoen of *Die Burger* "Why is one of the young economists of the Board of Trade and Industry not going with to the Imperial Conference?" Markus Viljoen (later editor of *Die Huisgenoot*) walked into my office in Marks Building and said, "I hear that you are going to London?"[344]

Havenga then summoned Bruwer to his office. Bruwer asked him whether his Minister had spoken to him. "If you think that you can come to London with General Hertzog and I to play policeman over us then you are very much mistaken" [345]. Bruwer then realised that his Tariff Act victory over the Milner men in the Treasury was having consequences. The following day, Bruwer received a call from Havenga, "Get ready to come to London with us".[346] This was the second victory over Havenga that Bruwer enjoyed, but he had less than three years before his political luck ran out.

Bruwer described how, once Beyers was out of the cabinet, agreements that he had worked on with France, Italy, Belgium, and Argentina became impossible to achieve, as de Kock and the

[344]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 31 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[345]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 32 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[346]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 32 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

other Board members sided with Havenga in blocking them.[347] Bruwer had "bitter fights with the Milner men (in the Treasury) about the discrimination against countries outside the British Commonwealth".[348]

7.5. Bruwer loses his protection

After the elections on 12 June 1929, Hertzog's National Party won an outright majority, and the Pact with the Labour Party was no longer necessary. Hertzog used the opportunity to reshuffle his cabinet, and one of the casualties was Bruwer's direct superior, and political protector, Beyers. Bruwer remembered with fondness the warning that Beyers had given him, as a young, highly-educated Afrikaner, just appointed to the upper ranks of the civil service:

> Bruwer, don't now become like all the other Afrikaners: As soon as they hold a position, they forget about their fellow Afrikaners.[349]

Bruwer described how he would always come away knowing more about any subject that he was presenting to the Minister after cross-examination from Beyers. He described the stark contrast between Beyers, the intelligent, quiet Advocate, who saw his first loyalty as being to his Afrikaner electorate, and the Minister who replaced him, Adriaan (Attie) Fourie, a teacher who went into politics, and who Bruwer thought was a party hack without finesse or refinement, and who was also Beyers's intellectual inferior.[350] Fourie, who had previously been Administrator of the Cape, was, according to Bruwer, "totally too light for his work, particularly as the world was beginning to go through a very difficult period".[351]

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[347] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 77.

[348] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 63.

[349]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 152.

[350]In private correspondence left in boxes on Bruwer's farm, Mymering, in Ladismith, Bruwer described Fourie and Havenga as "skaapkoppe", literally translated as "sheep heads", but really meaning someone with the intellect of a sheep. Also A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 155.

[351]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 160.

Bruwer described how "as soon as Fredrik William Beyers left the cabinet, my work inside and outside the Board of Trade and Industry came to a rapid end".[352] De Kock was appointed to the Diamond Board, a position Bruwer was expecting.[353] Beyers seems to have suffered the same fate as Bruwer of becoming *persona non grata* in polite and diplomatic circles. A "Report on the personnel of Conciliation Commissions"[354] from the US consulate in Cape Town, on 5 April 1939, noted, when discussing candidates, that "it is considered advisable to continue to omit the names of the Honourable Dr D. F. Malan, the Honourable F. W. Beyers, and the Right Honourable Sir Patrick Duncan, for the reasons outlined in the Legation's despatches … (the one that applied to Beyers was on 3 April 1938).[355]

With the worsening of economic conditions in 1930, Bruwer's conviction that the SARB should lower the discount rate grew, and he asked his friend on the Reserve Bank Board, Karl Gundelfinger from Durban, to speak to Clegg about this. Clegg's response to Gundelfinger, relayed to Bruwer, was that "the country must take its medicine".[356] This prompted Bruwer to approach the editor of *Die Burger*, Dr Geyer, when he happened to pass him in Parliament Street in Cape Town on 28 April 1930. Bruwer put it to Geyer that he would like to write an article for *Die Burger*, critical of Clegg's monetary policy. Geyer responded by stating that it had to be a purely scientific breakdown of the facts, and it would have to appear anonymously, as "It is only Mike de Kock who is permitted to publish his views on the Reserve Bank, even with the help of the Treasury, because he approves of the policy of Clegg and Farrer".[357] Nevertheless, on 30 April 1930, Bruwer's anonymous opinion piece appeared in *Die Burger*. Under the headline "Country is being Emaciated instead of being helped", Bruwer started on

[352]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 160.

[353]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 162.

[354]This was probably the "Commission to be established under the Treaty" to resolve "disputes arising between the US government and British Dominions", See Department of State, Treaty Division Agreement of 11 March 1941.

[355] National Archives, College Park, Maryland, RG59, Box 3008, US Consulate report dated 5 April 1939, page 2.

[356]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 162.

[357]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 152.

his old hobby horse, that the SARB was not necessary, but then went on to the heart of the matter, criticising the SARB for maintaining high interest rates. But Bruwer contradicted himself, criticising "saying farewell to the gold standard in 1915" but arguing for its removal in 1931 and 1932.[358] Furthermore, he failed to understand the importance of the lender of last resort function[359] of the SARB, and criticised the granting of the monopoly on bank note issue to the SARB,[360] all positions that one would expect from a "sound money" economist, but not from a national economist with a "development money" approach.

Having set out his ideas, which are such as one would expect to come from an Austrian school economist, Bruwer went on to make arguments more in keeping with his economic nationalist/ "development money" pedigree. He started this section by stating that "the State did not give all these concessions to the Reserve Bank so that they could merely make profit for their shareholders".[361] He raised the argument that, if the SARB had been established when two large banks were performing the normal banking functions perfectly well, then surely it must perform the function of "helping to develop the country".[362] Bruwer pointed out that, after the 1929 crash, the SARB pushed up their interest rates to 6%, at a time when the Bank of England reduced her interest rate from 6.5% to 3.5%. Bruwer asked how the SARB could have justified this harmful practice, at a time when bankruptcies were growing in South Africa. [363] After public criticism by Bruwer of the SARB interest rate policy, Bruwer was "ordered by Hertzog, on the request from Havenga, not to write about the Reserve Bank again.[364] Bruwer commented:

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[358]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 168.

[359]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 169.

[360]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 171.

[361]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 172.

[362]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 172.

[363]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 173.

[364] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 11.

When Britain decided to leave to gold standard, Havenga decided with his economic knowledge acquired as some old fashioned ideas that his Milner men blew in his ears, against the advice of John Maynard Keynes as well as me, to sacrifice the National Party, Gen. Hertzog, my work and my career, on the altar of "sound finance".[365]

And so this man [Havenga] thought that the state finances and monetary policy of a modern state could be handled on the same basis as a first bond over fixed property at six percent interest. For him devaluation was simply a question of taking from the one and giving to the other, something he learnt from J. E. Holloway, and which happened with any determination of price, with or without devaluation. For him the hallmark of a good Minister of Finance was to run surpluses on the government account, even if it was achieved by the conscious underestimation of state income and overestimation of its expenses. For him, the entire volk could be sacrificed for his foolish and ignorant gold standard policy, as long as the people in the world of gold said "Havenga is the man of 'Sound Finance'".[366]

And now we come to the second question: Why did Hertzog allow himself to be led by the nose by this man [Havenga]? And the answer is simply that General Hertzog, like Generals Botha and Smuts before them and Dr Malan after them, spend so much time on purely political and constitutional questions that demanded their attention, that he was unable to get on top of the economic problems of the country.

And so it was just as easy for Hertzog to be led by his nose by Havenga as it was for Botha and Smuts to be led by the nose by Henry Burton (the previous Finance Minister). And these two Ministers had the same mentor – Edmond Hugh Farrer, Commander of the Order of St Michael and St George.[367]

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[365] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 11.

[366] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 13.

[367] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 15.

In a 30 April 1930 "anonymous" article in *Die Burger*, Bruwer made the following seven points:

1. On the advice of one man [Strakosch] South Africa got a central bank on the model of the Federal Reserve System in the US, without establishing that it was necessary.
2. We did not need a US-style central bank for a banking system dominated by two big (imperial) banks.
3. Because of a commitment not to compete with the commercial banks, the SARB did nothing to break the monopoly on banking in the country.
4. The SARB is motivated, in its decision to invest its reserves of six to eight million pounds in the London Market, more by the desire to make a profit for its shareholders, than by the national interest.
5. The SARB was maintaining a punishingly high interest rate during a depression (1929-1930).
6. There should be more government appointed directors of the SARB.
7. The fact that the first governor came from the Bank of England, and the next from a commercial bank, raises the question of whose interests are being served.[368]

On 1 May 1930, he was hauled in front of the Prime Minister to explain himself. After Bruwer admitted to writing the article, Hertzog threatened him "in a way that I [Bruwer] would rather not repeat". Hertzog put it to Bruwer that, "Your Minister of Finance has stated that the time is not yet ripe to reduce interest rates".[369] Bruwer replied that, in 1923, Hertzog supported Bruwer when he took exactly the same position that Bruwer restated in his 30 April 1930 article. Hertzog responded, "Yes, but I was in opposition then".[370]

Bruwer went again to the Imperial Conference in 1930, but this time with an unsympathetic Minister, Attie Fourie. Bruwer described how he continued the fight, that he had begun at the 1926 conference, to establish a South African bureau of standards, so that the country could

[368]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics pages 1178-179.

[369]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 152.

[370]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 180.

break free from the British imperial standards, which gave British goods an unfair trade advantage. This fight, Bruwer claimed, was given up by Havenga, Holloway, and Heddon at the 1932 (Ottawa) Conference.[371] But from the report by the Legation of the United States of American in Pretoria, dated 15 August 1930, the tensions that were opening up between Bruwer and Hertzog, Havenga and Fourie were becoming apparent to others. The US diplomat, Ralph Totten, reported that, just before their departure for the 1930 Imperial Conference, "General Hertzog made a rather important speech … in which he rebuked some of the lesser lights of the [Nationalist] Party for having revived the secession issue. … Messers. Fourie and Havenga, both of whom are to accompany the Prime Minister, have speeches in a similar vein".[372] Picking up on the fact that Hertzog, Havenga, and Fourie were being uncharacteristically pro-British, "Criticism of the Prime Minister's stand came from the National Party press and the praise from the opposition press. *Die Burger*, the most influential of the National Party newspapers, … took the stance that … care must be taken to guard against the possibility of … plans for eventually curbing South Africa's freedom".[373] A US Senator, Watson, had criticised Imperial Preference and "Dr. Bruwer, Chairman of the Board of Trade and Industries, who is a great believer in protection for South Africa … was highly jubilant after Senator Watson's protest, and said that he hoped the United States would continue to oppose such movements as such opposition on the part of a powerful country would strengthen his hand at the Imperial Conference".[374] The next US report out of South Africa was entitled "Sending and Receiving of diplomatic representatives makes South Africa an independent country. Political activities of Dr. Bruwer."[375] If the US Legation in South Africa was picking up the tension between the positions of Bruwer, against Imperial Preference, and Hertzog, Fourie, and Havenga, in favour, surely a showdown was not far off. In his 2 September 1930 report, the US Consul General in South Africa, Ralph Totten, was watching Bruwer's advocacy for economic nationalism,

[371]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 182 - 184.

[372]The US State Department Papers, National Archive, College Park, Maryland, RG59, Box 6278, report of Totten to State Department dated 15 August 1930, pages 1-2.

[373]The US State Department Papers, National Archive, College Park, Maryland, RG59, Box 6278, report of Totten to State Department dated 15 August 1930, page 5.

[374]The US State Department Papers, National Archive, College Park, Maryland, RG59, Box 6278, report of Totten to State Department dated 15 August 1930, page 7.

[375]The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0322, report of Totten to State Department dated 2 September 1930, page 1.

carefully: "The whole of South Africa is intensely interested in the possible happenings at the Imperial Conference in London next month".[376] Totten observed that:

> The 'practical questions of vital importance' referred to are, of course, the economic questions involving British Empire trade and Imperial preference. The South African delegation consists of the Prime Minister, the Minister of Finance, the Minister of Trade and Industries, and the Chairman of the Board of Trade and Industries. General Hertzog will almost certainly be advised by the others in economic matters as he is a lawyer and politician, and not a great student of economic matters. Mr Havenga, the most intelligent and generally best informed of the group, is intensely loyal to his country and will only agree to such plans as he believes to be in the best interests of South Africa. Mr Fourie is an honest, staunch man in a new position with which he is not yet sufficiently familiar to have very pronounced views of his own. He is intelligent, however, and must be convinced before he will back any movement, but once convinced he will be steadfast. Dr. Bruwer, the economic expert, is almost fanatically patriotic and will oppose strenuously any plan unless it is unquestionably to the advantage of South Africa. He is already against any scheme for Imperial free trade or Imperial Preferences. … He is disposed to be anti-British and all of his influence will be against anything that is even slightly colored by Empire sentiment unless it is also entirely practical and utilitarian. It would seem that General Hertzog's attitude in economic matters will largely depend upon the advice he receives from his colleagues, especially from Mr Havenga, who [sic] he trusts fully and in whose intelligence he has great confidence. Mr Fourie is apt to be influenced by Dr Bruwer, who has a brilliant mind, although frequently biased in his decisions; is a fluent and plausible talker; and is proceeding to England on the same steamer with him. If Dr Bruwer succeeds in winning Mr Fourie over to his side during the voyage, and the two of them are able to convince Mr Havenga, then it may be foreseen that the South African delegation will be thoroughly unsympathetic to any movement towards Imperial Preferences, Empire free trade or any movement based on British sentiment rather than economically mutual benefit to South Africa.[377]

[376]The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0322, report of Totten to State Department dated 2 September 1930 page 6.

[377]The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0322, report of Totten to State Department dated 2 September 1930, pages 7-8.

Totten's summary was remarkable for its depth of analysis on the inner workings of the South African government, but it overestimated the diversity of opinion which is tolerated by a Prime Minister, or President. At cabinet level, loyalty to the position taken by the Prime Minister is a powerful force, and it appeared to have been the motivating factor in Fourie's decision-making. Bruwer's diary shows that Fourie had no intention whatsoever of siding with his maverick Chairman of the Board of Trade and Industry, and every intention of supporting his friend Havenga, and Prime Minister Hertzog.

At this 1932 Imperial conference, Havenga and Holloway supported Imperial Preference and, with Beyers gone and Bruwer muted, there was no opposing South African voice.[378] On 24 March 1931, Mr Krige, Member of Parliament for Caledon, introduced a motion to remove article 8 of the German trade agreement that Bruwer had successfully inserted in 1925. It failed, but Holloway and Heddon agreed its removal at the 1932 Ottawa Imperial Conference.[379]

When in London attending the Imperial Conference in 1930, Bruwer visited the office of H J van der Bijl, who was negotiating tenders. Van der Bijl offered Bruwer the Chairmanship of Union Steel at a salary one third of that of the previous Chairman. Bruwer, unable to sense that his days in a government post were numbered, took it as an attempt to get him off the Board of Iscor, and declined.[380] Having lost the support of his Finance Minister, Prime Minister, and the protection of the Minister of Mining and Industry (Beyers), the stubbornness of Bruwer's sense of entitlement to be involved in any area of policy that he chose is striking. Against his own self-interest, Bruwer rejected the Union Steel Chairmanship, which went to Kallie Rood, a decision that he was soon to regret.[381] In a few months' time his employment options would be much reduced. When Bruwer's Chairmanship of the Board of Trade and Industry came up for renewal later in 1930, the new Minister of Mining and Industry only renewed his contract for

[378]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 188.

[379]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, Section VI My participation in Politics page 190 - 191.

[380]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 195.

[381]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 196.

seven months.[382] Bruwer was now a marked man, and his colleagues began behaving maliciously. One of his staff at the Board instructed him that he had to fill in a form indicating how much time he spent on Iscor and other committee business.[383] This Bruwer refused to do.

Soon the other Board members, de Kock, Fahey and Roussouw, began a practice of meeting without Bruwer, before the official Board of Trade and Industry board meetings, to pre-agree the decisions that they would make at the official meeting, regardless of Bruwer's input. Bruwer expressed outrage at this practice in the board meeting, and reported the following response in his memoirs:

> Dr de Kock, who [sic] I still considered to be a good friend, said bitterly "Because of you I had to go to a psychiatrist for two years of treatment!" I was totally flabbergasted because, as I mentioned earlier, I was responsible for recommending that de Kock be appointed director of the Board of Trade and Industry. … I was always under the impression that the reason why he needed psychological treatment was because of his difficulties in speaking, and I could never have dreamt that my efforts to convince Minister Beyers to appoint de Kock to the Board of Trade and Industry would end so unhappily.[384]

This hostile environment was now Bruwer's lot, and the real surprise was how long he managed to hold out under his "uncultured and uncouth" new Minister, Attie Fourie.[385]

> The middle of 1929 until the beginning of 1932 was a bitter time for me, and I wonder sometimes how I managed to hold out for so long. I could only spend 5% of my time on constructive work, and had to spend 95% of the time taking the daggers out of my back. … Hertzog would ignore my wife and I when he passed us at the hotel at the 1930

[382]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 199.

[383]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 200.

[384]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 201.

[385]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 203.

> Imperial Conference, while standing and chatting to Dr and Mrs van der Bijl. The blows came from all sides, but those pulling the strings sat in the Treasury.[386]

At this point in his memoirs, Bruwer remembered with nostalgia his time under Minister Beyers:

> Fredrik William Beyers also had a Milner Man in his department (Warrington Smith) but he was not given free reign like the duplicitous, arrogant Milner men in the Treasury. Why the big difference? Because he knew what he fought for (in the Boer War) and because he was an unapologetic Afrikaner. No Milner man was able to influence him with smoozing and bamboozlement.[387]

On 13 March 1931, when the members of parliament and senior civil servants were about to move from the Administrative Capital in Pretoria to the Legislative capital in Cape Town, Attie Fourie informed Bruwer that neither he, nor the Minister of Finance, required him in Cape Town.[388] Bruwer protested his absence, but to no avail.

7.6. Jack Holloway in service of the South African economy 1924 - 1931

Dr J. E. Holloway was the Director of Census and Statistics from 1925 to 1933, Economic Advisor to the Treasury from 1934 until 1937 and Secretary of Finance from 1937 until 1950, during which time he was one of three South African representatives to the Bretton Woods conference of July 1944, and its representative at the IMF negotiations. Holloway then served as Ambassador to Washington from 1954 to 1956, and South African High Commissioner to London from 1956 to 1958

In 1924, Holloway gave an address to an unidentified commission, or some other official body, concluding his address to "Mr Chairman". The address was on "Economic Conditions"

[386]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 206.

[387]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 207.

[388]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 209.

affecting "Agriculture in South Africa". It is interesting on two counts, first that the year, 1924, was also that in which Bruwer began his work as chairman of the Board of Trade and Industry. and second, that there is no doubt that he was expressing personal convictions rather than views designed to support a subsequent career. He was then an academic teaching at TUC and would only enter the civil service many years later. While Bruwer was filled with enthusiasm at being a part of creating an industrial policy to advance all sectors of the real economy, Holloway's 1924 speech used Ricardian arguments against the tariff policy that Bruwer was just beginning to formulate at the time:

> Summarising the various points it would appear that a high level of prices tends to restrict the free-development of economic resources by increasing, through high wages and costs of raw materials, the cost of production of articles. … Lastly custom tariffs based on the principle of 'tax where tax can' further helps to raise prices, handicap local production and to limit the scope of economic employment.[389]

Holloway went on to dismiss the idea of industrial development but suggested that the future lay not in the development of various sectors, but in Ricardian specialisation. "South Africa is predominantly an agricultural country, and the agricultural interests possess a decisive voice in the legislation of the Union".[390] Holloway argued that the United States used to be a large net exporter of raw materials to Europe, but that, since the beginning of the twentieth century, it had become a net importer, and suggested that this further enhanced South Africa's Ricardian advantage in agriculture.[391] But he did not confine himself to singing the praises of South African agriculture. Holloway was also determined to undermine Bruwer's ideas about industrial development.

> In conclusion, I wish to devote a few words to the subject of industrial development, which is so often described as the final solution of the unemployment problem in South Africa. … great care must be taken in reasoning about industrial development, not to

[389] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/25, address by J. E. Holloway Agriculture in South Africa, 1924 page 6.

[390] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/25, address by J. E. Holloway Agriculture in South Africa, 1924 page 7.

[391] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/25, address by J. E. Holloway Agriculture in South Africa, 1924 page 9.

> put the cart before the horse. Because the development of a natural industry produces wealth, it does not follow that to encourage industrial expansion generally is synonymous with increasing the wealth of the country. It is important, in this respect, to keep our feet on the firm ground of economic principle. That country is most prosperous which develops fully its most profitable source of wealth. … I hold, then, that our greatest source of wealth lies in agriculture, and that it is in the exceptional rather than the normal industry that we have any prospect of competing advantageously with the older countries, which are already engaged in a cut-throat struggle for the available markets of the world. … Competition between a factory turning out its products by the thousands, and another doing the same by the million, is a losing game all along the line for the smaller factory in the majority of machine-industries.[392]

Holloway dismissed the home market, and that of South Africa's neighbours, as "very small". "Industries catering for our small local market have an advantage in the fact that our coal and iron, essential materials for all industrial development, are conveniently situated in relation to some of our largest centres of population," Holloway said, but then poured cold water onto any enthusiasm that this may generate, because "if, however, we wish to produce for export, this advantage becomes a handicap".[393] In this address, Holloway showed all of the weaknesses of Ricardo's own arguments: an insistence that theoretical principle must guide policy and not data from the real economy, and a blind spot to the actual development experience of industrialising countries. Had Holloway read List, as Bruwer did, then he may have been less enthusiastic about relying solely on agriculture for development and may have let go of his obsession with international trade as the sole vehicle for development.

7.7. Summary and Conclusion

This chapter ends at the close of 1931. It deals with the build-up to the great ostracism of Bruwer which would begin in February 1932 and is the subject of the next chapter. By the end of 1931, Hertzog's National Party was governing alone, free of its pact with the Labour Party. The National Party's fiercely anti-British electoral rhetoric did not match the accommodative

[392] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/25, address by J. E. Holloway Agriculture in South Africa, 1924 page 8.

[393] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/25, address by J. E. Holloway Agriculture in South Africa, 1924 page 8.

approach that Hertzog had taken on many aspects of economic policy, and Beyers, who had showed a loyalty to the National Party manifesto rather than to its leader, did not make it into the 1929 cabinet.

But while Havenga and Hertzog sought accommodation with the British on Imperial preference, they were stiff-necked about a commitment to the gold standard. After September 1931, the South African currency was clearly overvalued, and the economy suffered from their stubbornness. Holloway was brought in as an advisor to the government towards the end of 1931. He supported the government policy on trade and currency. By contrast, by the end of 1931, it was clear that Bruwer's days in the civil service were numbered. He was regularly in the press, opposing government trade and currency policy, and the SARB. He was about to be cut out of government-related employment, and Holloway's fingerprints were all over the knife.

CHAPTER EIGHT: THE SOUTH AFRICAN MONETARY CRISIS 1931 -1932

8.1. Introduction

The monetary crisis of 1931 -1932 would radically alter the lives of Bruwer and Holloway in opposite ways. Bruwer would further publicise his opposition to government policy, and suffer banishment from mainstream Afrikaner society, and Holloway would become a valuable advisor to the Minister of Finance, albeit initially behind the scenes. This would lead to a career which would cause Professor Joubert Botha to say of him "There can be very few people in public service in South Africa *over the whole of the twentieth century* whose influence on national economic policy at the highest level was as significant, pervasive and enduring as that of Jack Holloway" (Botha 2002: 17-18) (italics his). That career really started in the period dealt with in this chapter.

The South African monetary crisis, from September 1931 to December 1932, was really a question of how to respond to the British monetary crisis which had come to a head in September of 1931. Bruwer, following Keynes, understood that great damage was being done to the British real economy by forcing a deflation onto it in an attempt to secure the pound to its pre-WWI parity gold price.[394] (this is dealt with in the next section) "Britain struggled with the tyre of deflation around her neck, … and exports fell".[395] He noted with approval that "One of the first steps of the (British) national government was to abandon the gold standard, perhaps for good". Bruwer characterised the party-political problem in South African politics as follows:

> Smuts was in London at the time, and being the reliable pillar of the Empire that he was, he immediately made a statement that the Union must also leave the gold standard. And so Smuts did the wrong thing! For a moment he forgot that, if the leader of the

[394]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 222.

[395]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 223.

> opposition says "black", then the government must say "white". … When Smuts said "Go off gold", Hertzog and his shadow Havenga said "Stay on gold". Which of the two took the initiative I do not know, but I can imagine a man of the people like Hertzog pleading for devaluation because it lightens the load of the debtor.[396]

Edmund Hugh Farrer, the Secretary of the Treasury a strong supporter of the gold standard, resigned from the Treasury at the end of July 1931, and was appointed to the de Beers board by Ernest Oppenheimer.[397] Farrer had served London-based capital well as Secretary of Finance, and he now served it directly at de Beers in Kimberley.

8.2. Allegations of plagiarism against Dr De Kock

Aside from his opposition to government monetary policy, Bruwer found his relationship with de Kock deteriorating further, six months before the monetary crisis of September 1931. Bruwer was blamed by the government for an attack on de Kock (initially as an advisor to the SARB and later as Deputy Governor) in parliament on 11 March 1931. The South African Party MP, Colonel Deneys Reitz turned his attention to the fact that de Kock allegedly failed to acknowledge his sources in many of his published works.

Bruwer noted in his memoirs that:

> The whole business was amusing to me because I spoke to de Kock one day in my office about intellectual honesty. He just did not see the necessity of acknowledging the sources of his information at the foot of every page. In the same book [Economic History of South Africa] for example, there appeared a graph in my own hand that I have drawn for the monthly periodical of the Standard Bank of the exchange rate fluctuations between us and London; and still he did not say where he got the graph

[396]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 224.

[397]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 224.

> from. He also appropriated another graph of the turnaround in our international trade balance without mentioning his source [again it was Bruwer], although in this case he rewrote it. Then Charles Pearsall of the office of Census and Statistics told me one evening at a dinner at the Pretoria Country Club that de Kock took large chunks from the Yearbook of the Union of South Africa that he [Pearsall] had written, but that de Kock failed to acknowledge the Yearbook.[398]

Reitz had a reputation for colourful oratory. He used satire to attack de Kock for his plagiarism, by casting de Kock as the victim of people who "plagiarised" him in their works that predated those of de Kock's. It was clear from the context that Reitz was making fun of de Kock. Reitz's speech followed de Kock's appointment as a "pliable man at the head"[399] of the SARB, and was given in parliament on 11 March 1931. The *Cape Times* reported it as follows:

> There was a certain amount of light relief when Colonel Reitz dealt with the recent preferment of Dr M H de Kock to an important position in the Central Reserve Bank. Dr de Kock is the author of several treatices on the Finances of the Union and has also written an economic history of South Africa as well as a dissertation on Reserve Banks, with special reference to the South African Reserve Bank. … In his economic history he wrote on a large variety of South African industries and agricultural activities and Colonel Reitz quoted copious extracts from his remarks on these various enterprises. The strange thing, Colonel Reitz suggests, is that Dr de Kock's work was plagiarised.[400] It was plagiarised ten years or more before he wrote it, in various government Blue Books and more particularly in the Union Yearbook. Strangely enough, the officials who wrote, for instance, on fisheries in the Union, anticipated Dr de Kock's elegant English by making use of precisely the same expression that he himself employed, and they did this, so Colonel Reitz stated, through whole columns of interesting matter

[398]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 212 -214.

[399]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 213.

[400] This statement raises the expectation that De Kock is the plagiarist, which Reitz then undercuts by pretending to believe that his victims had, in fact, plagiarised De Kock by anticipating his exact words.

> which was eventually repeated by a singular coincidence, with here and there a mere verbal difference in Dr de Kock's own volume.
>
> It was, he said, an extraordinary piece of hard luck that Dr de Kock's great thoughts had been anticipated and pirated by previous writers. Another of Dr de Kock's more recent works dealt with business cycles and here again he had been anticipated by other writers who had adopted almost identical language. For a record crib Dr de Kock had received promotion over the heads of many responsible officials in the Public Service and he insisted that it was incidences of this kind which lead to discontent that was rampant in the civil service. He looks upon the National Party as a national calamity (Cape Times; 12 March 1931, page 9).

This was followed by a cartoon making fun of de Kock's plagiarism on 14 March 1931. It is not our intention to pronounce on the veracity of these claims of plagiarism. Our focus lies in Bruwer's response to them.

Bruwer said in his memoirs that when he saw the cartoon, he "thought that de Kock would sue the paper for defamation of character."[401] But instead, de Kock, through the Finance Minister, attacked Bruwer. On 13 March 1931, two days after Reitz attacked de Kock's appointment in parliament, and a day after it was reported in the Cape Times, Attie Fourie, now Minister of Mining and Industry, informed Bruwer that "his services were not required by him or by Havenga in Cape Town"[402] (when all of cabinet and most senior civil servants moved from the Administrative capital to the Legislative capital). Attie Fourie confronted Bruwer and accused him of leaking the damaging information on de Kock. Bruwer warned Fourie that "if the cabinet wanted to protect de Kock by making me [Bruwer] a sacrifice",[403] then he would fight them as hard as he could.

[401]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 215.

[402]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 214.

[403]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 215.

8.3. Britain Leaves the Gold Standard in 1931

The monetary crisis of 1931 was not easily explained in terms of orthodox models. The background to the crisis was that the British real economy faced severe hardship from 1925, when she returned to the gold standard. By most calculations, sterling was overvalued by about 10% – 12% at the time (Skidelsky 1992: 192). Orthodox economic theory postulated that internal prices, including wages, would adjust downwards. Keynes pointed out in *The Tract* (1923) that wages would not adjust as fluidly as expected, and in *Mr Churchill* (1925) and *The General Theory* (1936) he argued that this adjustment would come in the form of lower total income, via higher unemployment. His was very much the minority view and the majority of those in power, including Montagu Norman (Governor) and Ernest Harvey (Chief Cashier 1918-1925 and Deputy Governor from 1929-1936) at the Bank of England, believed the general equilibrium orthodox theory that suggested that stability came with the Gold Standard. Initially, the imbalance caused in the British real economy as a result of the over-valuation of sterling was dealt with by way of subsidies to industry, but when the money for these ran out, the ruling élite expected the adjustment to take place through reduced wages. This expectation resulted in the General Strike of 1926. Finally, with the collapse of the Creditanstalt Bank in Austria, which started in May 1931 (Eichengreen; 1992: 265), questions arose in the financial markets about Britain's ability to maintain the Gold Standard. And with the May Committee report, published on 31 July 1931, revealing a budget deficit and recommending cuts in government expenditure, as well as tax increases (Kenwood and Lougheed; 1983: 206), the drain on the London exchange escalated.

On 1 August 1931, the Bank of England secured a credit of £50 million from French and American banks and, at the end of August, a further £80 million. Large flows of money continued to leave the London money market, totalling approximately £200 million, in the two months prior to 30 September 1931, when legislation was finally passed, suspending the Bank of England's obligation to sell gold (Kenwood and Lougheed; 1983: 207).

8.4. The British and South African Governors' correspondence during the crises

Norman and Clegg had a close relationship, as was clear from their correspondence. In a letter from Norman to Clegg, dated 1 July 1931, Norman confessed "you can really have little idea of the times through which we have been going here lately … Austria, Hungary and Germany … went over the dam".[404] Following the collapse of Creditanstalt Bank in Austria and the obvious implications for the international monetary system, Clegg telegrammed Norman on 6 August 1931, "I notice slight tendency on the part of mining houses to avoid holding larger sterling balances than absolutely necessary. Can you give me any private reassuring message as to the position of sterling".[405] On 7 August 1931, Harvey, Deputy Governor at the Bank of England, telegrammed Clegg assuring him that "there can be no doubt as to London's ability" to maintain its position.[406] In order to relieve Harvey of any worry about the correspondence reaching the public, Clegg sent him a handwritten letter, dated 12 August 1931, informing him that South African mining houses had been placing sterling balances with the Reserve Bank and stipulating that they must be repaid in South African currency. Emphasising that he did not want to "show any hesitation in taking sterling", he stated that he would appreciate their advice.[407] This was followed, again on 25 August 1931, by a telegram from Clegg to Norman, stating that "in view of our large sterling balances … I shall be greatly obliged by some advice as to the current position".[408]

[404]Montagu Norman Papers, Bank of England Archives, file G1/135, letter from Norman to Clegg dated 1 July 1931.

[405]Montagu Norman Papers, Bank of England Archives, file G1/135, telegram from Clegg to Norman on 6 August 1931.

[406]Montagu Norman Papers, Bank of England Archives, file G1/135. Telegram from Harvey to Clegg on 7 August 1931.

[407]Montagu Norman Papers, Bank of England Archives, file G1/135. letter from Clegg to Norman dated 12 August 1931.

[408]Montagu Norman Papers, Bank of England Archives, file G1/135. telegram from Clegg to Norman on 25 August 1931.

Harvey responded with a telegram to Clegg on 27 August 1931, assuring him that the British government would defend sterling by cutting the dole by ten per cent to balance the budget and informed him confidentially of the American and French loans to support sterling. This was followed up with a further telegram two days later, informing Clegg of "large credits in New York and Paris which I trust will satisfy any *Doubting Thomas*".[409]

On 2 September 1931, Clegg sent Harvey a handwritten letter, apologising for doubting the Bank of England's ability to maintain the Gold Standard and again, in a typed letter, on 16 September 1931, asked Norman, "Kindly bear me in mind if any important development occurs in the position of sterling during the next month or two"[410]. Despite the close and cooperative relationship between Clegg and the Bank of England, the Bank of England did not give Clegg any forewarning of leaving the Gold Standard and simply announced the suspension of gold sales in a telegram to Clegg on Sunday, 20 September 1931. Clegg wrote an angry letter to Norman on 23 September 1931, "To say that I was thunderstruck is to use a mild metaphor … I had taken your assurances *as my gospel* in these latter days and I have not allowed myself to think of such a thing happening as anything more than a particularly odorous nightmare".[411] This was followed by a letter to Harvey dated 21 October 1931, in which Clegg said,

> I have certainly been disappointed that we have had no guidance from you during this crisis … I realise that it has probably been impossible for you to give any information … I must frankly say, however, that after my two cables to you in August asking you anxiously about the position of sterling and after your three assuring replies, I never thought it possible that I could have been left without any sort of warning to meet all the disastrous consequences of a departure by Great Britain from the Gold Standard.[412]

[409]Montagu Norman Papers, Bank of England Archives, file G1/135. Telegram from Harvey to Clegg on 27 August 1931.

[410] Montagu Norman Papers, Bank of England Archives, file G1/135. Letter from Clegg to Harvey dated 2 September 1931.

[411]Montagu Norman Papers, Bank of England Archives, file G1/135. Letter from Clegg to Norman dated 23rd of September 1931.

[412]Montagu Norman Papers, Bank of England Archives, file G1/135. letter from Clegg to Harvey dated 21 October 1931.

What this exchange illustrated was that close collegial bonds only went so far, and when the national interest interposed itself between these relationships and demanded that a choice be made, it was the British national interest that won out, and the personal relationship with Clegg was ignored.

Much of what Bruwer described in his memoirs is verified by triangulation with the other documents from various archives consulted (see pages 30 - 31). I only found two exceptions. Firstly, Bruwer got the date wrong by one day, in describing certain newspaper articles, no doubt an innocent error. Secondly, he described a telegraph, supposedly sent by Norman to Clegg "on Saturday the 19 September 1931 that there was 'No cause for alarm', as if he would telegraph anything else!"[413] From the examination of the Montagu Norman Papers at the Bank of England, we know that this is not *verbatim* what Norman said to Clegg. But even here, Bruwer described the spirit, if not the letter, of the correspondence which is recorded in the Bank of England archives. Bruwer went on to note that "As a result of Britain leaving the gold standard, Clegg lost his capital of £1 million and half of his reserve fund, £800 000".[414] Although this figure is not mentioned in the Clegg Norman correspondence, the manner in which the correspondence unfolded suggests that these figures could very well have been accurate. It is a matter of public record that the reserves of the SARB fell by half by the end of 1931 (Henry; 1963:237).

And yet Johannes Postmus, then the Deputy Governor of the SARB, who visited Vissering in de Nederlandsche Bank before his return to South Africa in 1931, was the author of a SARB statement that said "there is no reason apparent to the South African Reserve Bank why South Africa should go off the Gold Standard" (Henry; 163:242).

South Africa fell into that group of countries whose governments resisted leaving the gold standard to the end. In this respect, South Africa was in a unique position. Perhaps because its major economic sector was the gold mining industry, its decision-makers tended to think in

[413]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 225 of Deel IV My Deelname aan die Politiek.

[414]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 225 of Deel IV My Deelname aan die Politiek.

terms similar to those of international financial centres, whose stock in trade also included gold. Eichengreen (1992) notes an interesting difference between those countries which relied on their real economies, and those which were international financial centres. The real economy group felt the economic pain quickly enough to exit the Gold Standard sooner, and those countries with large financial centres, particularly the Netherlands and Switzerland, were the last to leave the Gold Standard. De Cecco echoes this point with reference to Britain, where the "authorities had foremost in their mind the fact that the world's banker would be partially defaulting on its sterling debts" (de Cecco; 1985: 52) if it left the gold standard. And so, as suggested by de Cecco, an unemployment rate of above 20% in the 1920s could be seen as the sacrificing of the British real economy to the interests of the City of London, in the "fight to the finish" between London and New York to be the future financial centre of the world (de Cecco; 1985: 52).

8.5. The alleged insolvency of the major South African Banks in September 1931

Johannes Postmus happened to be visiting the Bank of England at the time of the August/September 1931 crisis. Following the collapse of the British Gold Standard and the devaluation of sterling, Postmus (in London) sent a telegram to Clegg (at the SARB) and asked, "can my speaking to Bankers here and to General Smuts do any good?"[415] Smuts was also in London at the time. The following day, by return telegram, Clegg authorised Postmus to speak to the banks, but not to Smuts, who was no longer in government.[416] On 28 September 1931, Clegg received a shocking telegram from Postmus. Item 3 read, "As matters stand to-day I am afraid Barclays Bank DCO, Standard and ourselves [the SARB] are insolvent". Item 14 asked, "Have you shown Minister of Finance my cables?" Item 15 read, "If not please do so and if it can strengthen your hand" Postmus offered his resignation.[417] Postmus brought the dire position of the South African banks to Norman's attention, and Norman telegrammed Clegg at

[415] Montagu Norman Papers, Bank of England Archives, file G1/135 (Governor's File on South Africa 12 April 1931-8 October 1931), telegram from Postmus at Bank of England to Clegg at SARB dated 26 September 1931.

[416] Montagu Norman Papers, Bank of England Archives, file G1/135 (Governor's File on South Africa 12 April 1931-8 October 1931), telegram from Clegg at SARB to Postmus at Bank of England dated 27 September 1931.

[417] Montagu Norman Papers, Bank of England Archives, file G1/135 (Governor's File on South Africa 12 April 1931-8 October 1931), telegram from Postmus at Bank of England to Clegg at SARB dated 28 September 1931.

7.45pm on 28 September 1931. Referring to Postmus's earlier telegram, Norman said, "I am persuaded that the three banks mentioned in paragraphs 3 are insolvent according to the figures disclosed by Postmus. So, your whole banking and financial position is in jeopardy. In order to avoid a crisis, I think assistance should be given by Union Government without delay. *Before considering method or details this fact needs to be recognized"* (Norman's italics). The following day, Clegg instructed his deputy to meet with the London representatives of the "two banks", and on 30 September 1931 Postmus reported back, having met with Standard and Barclays separately, that their books are balancing "within narrow limits".[418] The Reserve Bank loans "to the commercial banks and the government increased from £0.893 million in September 1931 to £8.434 million in March 1932" (Kantor; 1972:76).

Contrary to the predictions of Kemmerer, and bewilderingly absent from the account of Dalgaard (1981), South Africa suffered economically when it stubbornly remained on the Gold Standard after Britain, and much of the world, was forced off in 1931. "The impact on South Africa of the world-wide decline in output, employment, and prices was aggravated during the 15 months when the Union remained on the Gold Standard after the depreciation of sterling and other currencies" (Feinstein; 2005: 121-122). Evans wrote to Kemmerer on 18 January 1932, describing this disastrous state of affairs, but without the slightest bit of self-reflection on the fact that his fundamentalist faith in the Gold Standard turned out to be a horrible mistake:

> The heavy fall in wholesale prices in the past two years, coupled with the suspension of the Gold Standard by Britain, Australia and other countries has created a disastrous state of affairs for all South African producers for export, excepting the gold mines, and even the gold mines are severely handicapped as compared with the gold mines in Australia and other countries. The net prices our farmers receive for what they export are about 20% below the pre-war level, while their cost of production and the prices of the things they have to buy are anything from 20-50% higher than in 1910-1914. [419]

[418]Montagu Norman Papers, Bank of England Archives, file G1/135 (Governor's File on South Africa 12 April 1931-8 October 1931), telegram from Postmus at Bank of England to Clegg at SARB dated 30 September 1931.

[419]Samuel Evans Papers, Barloworld Archives - Box entitled "Politics 1899-1949, Reform Committee, 1895, Reform Committee, Relief Funds" – mainly press cuttings and shorthand notes on gold".

8.6. Bruwer proposes devaluation

Directly after Britain was forced off the gold standard on Sunday, 20 September 1931, Bruwer spoke to Hertzog. He informed Hertzog that if South Africa devalued to the new sterling pound parity, then the economic horizon would change in 48 hours from darkness to light, and that he could stay in power for decades if he took the step to devalue immediately.

> The General was sympathetic in his posture to my approach, but was influenced by the stubbornness of Havenga in the opposite direction, and by the wisdom of Dr Mike de Kock, Dr Jack Holloway and dozens of other "experts" who spoke of devaluation as the "Road to Moscow".[420]

Throughout this crisis, Havenga listened to only "sound money" advice. "Besides de Kock, Havenga got Farrer to advise him from his office (at de Beers) in Kimberley. Farrer's replacement in the Treasury was J. J. I. Middleton, who[m] Havenga did not fully trust … After Middleton's departure … Havenga found Holloway".[421]

Dr Gustav Preller, editor of *Onse Vaderland*, asked Bruwer for an interview a few days before, and the interview took place just after, this crisis broke. In the interview (published on 25 September 1931), Bruwer rubbed salt into the government's wound:

> It seems that my biggest sin was to say that if W. H. Clegg, Governor of the Reserve Bank, had listened to me four years earlier, and not invested so royally in London, then he would have less reason to regret that third week in September. And while every

[420]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 37 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980. This tendency to lump all Keynesians, and other development money thinkers, under the label "communists" has been a stumbling block to sensible policy debate for at least a century.

[421]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 2 of Deel IV My Deelname aan die Politiek.

> trader on the share market could put two and two together, I was held responsible for the fall in the value of the Reserve Bank shares.[422]

The Rand Daily Mail took extracts from the *Onse Vaderland* interview and published them on 26 September 1931, and in 1932 Parliament had to deal with the losses that had been incurred at the SARB.[423] With all of this negative press about the government's monetary policy generated by Bruwer, de Kock and Holloway were "designated as hatchet men to deal with Bruwer".[424] De Kock responded with articles in *Die Burger* and the *Rand Daily Mail*[425] and Holloway worked behind the scenes. The Board of Trade and Industry recommended subsidies to farmers, in order to avoid devaluation by leaving the gold standard (subsidies were the failed policy of the British government from 1925 – 1931, in a vain attempt to avoid the inevitable devaluation there). Bruwer commenced confidential lobbying of his friends in the National Party,[426] to get them to "discuss the matter at the Party caucus". Bruwer explained:

> I was motivated by the idea that if South Africa devalued, then Britain, which took the Lion's share of our exports, would import more South African goods, and if it was well executed, then it would mean more income for the state and the National Party government would be in power for decades[427].

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[422]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 227 of Deel IV My Deelname aan die Politiek.

[423]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 229 of Deel IV My Deelname aan die Politiek.

[424]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 229 of Deel IV My Deelname aan die Politiek.

[425]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 230 of Deel IV My Deelname aan die Politiek.

[426]Piet van der Merwe (MP Wakkerstrom), Louw Steytler (MP Burgersdorp), S. de Wet (MP Heidelberg) and a few others. A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 231 of Deel IV My Deelname aan die Politiek.

[427]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 232 of Deel IV My Deelname aan die Politiek.

But the Milner men in the Treasury, who had Havenga's ear, were against leaving the gold standard. Their "sound money" education meant that "they had never heard of devaluation and knew nothing of it".[428] The other influence was Clegg at the SARB, who had also been schooled in "sound money". Bruwer described him as "a man for economic castor oil", because of his standard advice that "the country must take its medicine".[429] In the meantime, just as he had in 1919-1920, Smuts supported devaluation to bring the Union Pound in parity with the devalued British Pound. "Smuts, the leader of the South African Party, has in various speeches vehemently condemned the Nationalist Party now in power for its decision to remain on the gold standard."[430] Meanwhile, at the SARB, the gold standard crisis of 1932 prompted a rare burst of shareholder activism.

> The first such occurrence was in 1932, when South Africa stayed on the gold standard after the United Kingdom stepped off it in 1931 (SA Reserve Bank 1971).There was considerable unhappiness about the continuation of the gold standard, also among shareholders of the SARB, at that time. There was a view prevailing that the maintenance of the gold standard caused undue financial hardship in South Africa.
> When the three-year term of a sitting SARB Board member (Mr Baxter) expired in 1932, shareholders nominated Mr Parker, who advocated the abolition of the gold standard, to oppose him. Mr Parker was elected to the Board, replacing Mr Baxter who was not re-elected (Meiring; 1994, quoted in Rossouw; January 2018: 11).

Bruwer, throughout his writings, with the exception of some sound money positions that he took when the SARB was involved, maintained an essentially development money approach to monetary policy, and particularly to devaluation.

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[428]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 231 of Deel IV My Deelname aan die Politiek.

[429]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 231 of Deel IV My Deelname aan die Politiek.

[430]The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0322, report of Totten to State Department dated 17 December 1931.

> Even in the Middle Ages, when the King waged war and had to borrow coins from creditors, when the war was over they found that the soldiers had either spent the money in the enemy lands, or buried it. The King could therefore not get back in taxation the cost of the war, and what they did get back, they melted down and re-minted into lighter coin. This was the olden-days version of devaluation.[431]

> To talk about devaluation as "take from the one and give to the other" indicates a faulty foundation and leads us nowhere, because the deflationary policy that Havenga … works on is also a question of take from the debtor and give to the creditor. Even the USA had to devalue the dollar in April 1933, devalue in order to overcome her great poverty. … [In South Africa] it was the farming community that suffered most from Havenga's policy that favoured the gold mines and the money lenders. [His] attempt to help the farmers with export subsidies was so sloppy and pathetic.[432]

8.7. Bruwer resigns

On 21 January 1932, Van Zyl Ham, Secretary of Mining and Industry, gave Bruwer notice that he was not renewing Bruwer's directorship at Iscor.[433] Finally, on 6 February 1932, Bruwer resigned from the Board of Trade and Industry. Two days later, an article that he had written appeared in the *Cape Times*. In it, he advised the US to take the policy route finally adopted with great success by FDR over two years later. In this respect, Bruwer again echoed Keynes, and gave the opposite advice to that of Kemmerer, whose predictions of the dire consequences of FDR's policies were hopelessly wrong.[434] Bruwer continued his Keynesian advice:

[431]Second batch of the memoirs of Dr A. J. Bruwer, pages 349 of Deel IV My Deelname aan die Politiek, A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State.

[432]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 349 of Deel IV My Deelname aan die Politiek.

[433]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 235 of Deel IV My Deelname aan die Politiek.

[434]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 247 of Deel IV My Deelname aan die Politiek.

> let us not be a slave to a God with so many drawbacks [the international gold standard]. Let us, as France, Belgium and Italy have done … manipulate the gold standard so as to suit our national purpose, International control is bound to come later … We can hold out no longer.[435]

After quoting from Kemmerer, Bruwer went on to complain that the "sound money" never acknowledge the misery that is suffered by their deflationary policies.[436] He ended his article calling for the nationalisation of the SARB, to "put a stop to its career of big losses".[437]

Regardless of Bruwer's merit as a civil servant, the editorial that appeared in the *Die Burger*, 10 February 1932, failed basic standards of decency. It appeared the day after Bruwer's attack on the government's failed monetary policy was printed by the *Cape Times*. The editor of *Die Burger* penned a poisonous, Stalin-like shot-across-the-bows warning to anyone else thinking of breaking with the party line.

> To our regret we must express our deepest sympathy with Dr Bruwer … This bright Afrikaner became an unfortunate victim of his own temperament. Driven by a persecution delusion complex, which went from bad to worse after the appointment of a new Deputy Governor of the Reserve Bank, Dr Bruwer finally decided to tender his resignation as Chairman of the Board of Trade, a role that he performed with indisputably great service to South Africa.
>
> This step was clearly unavoidable for a man like Bruwer, even though it is clear that the necessity of this move means that he will, in future, not taste much luck, because he did not burn his bridges alone. Shortly, he can expect a welcome on the other side of the river [in the South African Party]. His attack on the policy of the government

[435]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 254 of Deel IV My Deelname aan die Politiek.

[436]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 255 of Deel IV My Deelname aan die Politiek.

[437]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 257 of Deel IV My Deelname aan die Politiek.

> regarding its handling of the gold standard will be used by political enemies. But Dr Bruwer can't celebrate this. He knows that the political enemies of the government want something completely different to what he wants … He must hear the following:
> That he is completely unauthorised to offer judgement,
> That he is ignorant of practical Banking matters,
> And that his limitations result from his shortcomings as an armchair economist.
>
> Unfortunately, there is no doubt that the view of the S.A.P. paper [The Cape Times],[438] and that of its supporters of a departure from the gold standard, regarding the jurisdiction of Dr Bruwer, is still precisely the same as a few years ago. They will use him now. But they do not want to convert the Reserve Bank to a State Bank under the management of Dr Bruwer. They will not follow him in getting rid of political parties, but will still strive to dismember the National Party, and after that to cast aside Dr Bruwer like a worn-out glove. They also do not want to hear about the development of South Africa's economic independence, an ideal close to Dr Bruwer's heart, and they will exploit his statement for aims that are an anathema to Dr Bruwer. …
>
> Dr Bruwer's mood, and not his mind, has been his undoing. Devaluation of the South African pound, price fixing, the ban on the import and export of certain articles, and the establishment of a State Bank are at the very least impractical and dangerous combinations.[439] (own translation)

The editorial ends with a quote from a pro-gold standard US Senator on the importance of the US maintaining the gold standard, and the declarations that "for South Africa it will be the same" (*Die Burger* Editorial; 10 February 1932). After five months of misery for South African farmers, with agricultural prices disastrously low, and an overvalued South African pound, after years in which Bruwer had been the darling of Afrikaner nationalists in his support for South African independent development, and after years of his mostly insightful criticisms of a tariff and monetary policy that suited London more than it did South Africa, *Die Burger*

[438]The *Cape Times* was at that time the mouthpiece of British South African opinion, which at this stage, solidly supported the South African Party of Jan Smuts.

[439]*Die Burger* suggested that it was Bruwer's inability to wait for the right time for certain nationalist policies to be implemented that was his undoing, and that he was impetuous in his impatience.

announced the casting out of Bruwer as a pariah, and declared him persona non grata. What exactly was his crime, that warranted such social and economic exile. Publishing his criticisms of the government's ill-advised monetary policy in a newspaper that supported the "enemy". Not the opponents in an elected parliament, but "the enemy".

The following day, *Die Burger* reported on Bruwer's resignation letter to his Minister of Mining and Industry, the Havenga supporter, Adriaan "Attie" Fourie. The letter, unwisely long (22 pages),[440] was filled with unnecessary clutter, and read like a naive appeal to a *Deus ex Machina* instead of what it was in reality – a letter to a relatively under-educated Minister who had been appointed because of his loyalty to the Prime Minister.[441] The letter did, however, contain Bruwer's articulation of his criticism of the government's clinging to the gold standard, after it was clear that it was compounding the hardship of farmers, his criticisms of Reserve Bank policy, and his comment that it was unfair that Holloway got to publish his views in the press, but he was barred from doing so.[442]

But *Die Burger*, in their front-page report of 11 February 1932, used the rambling nature of Bruwer's resignation letter to avoid dealing with the substance of Bruwer's reasons for resigning. "Bruwer punches left and right" was the headline, and the article which dealt with Bruwer's letter mentions almost nothing about the gold standard or Reserve Bank criticism which were at the heart of Bruwer's falling out with Hertzog's government. Instead it focused on Bruwer's criticisms of Dr H. J. van der Bijl's handling of Iscor, and other relatively irrelevant issues to portray Bruwer as having a personality problem (*Die Burger;* Front page, 11 February 1932).

[440]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 268 to 289 of Deel IV My Deelname aan die Politiek.

[441]A "Skaapkop", as Bruwer called him in a letter to a friend. Private archive of Bruwer Papers, previously abandoned at the farm, Mymering, and now in the possession of the author.

[442]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 286 -289 of Deel IV My Deelname aan die Politiek.

The US Consul General in South Africa, Ralph J. Totten, had a different take on the matter. Totten sent a detailed report on 16 February 1932, dealing with Bruwer's resignation. In it he noted that:

> I have had the honor to refer to various reports during the last six years referring to Dr A J Bruwer, Chairman of the South African Board of Trade and Industries and to many important bits of information secured through Dr Bruwer's friendship for the Consulate General and the Legation.[443]

The report went on to let the State Department know that Bruwer had resigned. Bruwer was "known to be rather aggressively anti-British and pro-American". Totten described how Bruwer "had differed with other authorities materially in connection with" the SARB, that he had "rather indiscreetly made his complaints … known to the public", and that his "very pronounced opinions regarding economic matters caused a difference of opinion between himself and the head of the Union Iron and Steel Corporation". It described how "His functions have bit by bit been taken away from him and given to other members of the Board. Recently this policy had reached a point where he no longer had any authority or was ever consulted in regard to matters relating to the Board. Heads of other Departments were instructed not to correspond directly with Dr Bruwer on official matters. His position finally became so difficult and embarrassing that he was forced for the sake of his self-respect to resign."[444]

Totten ended by saying that "I regret very much Dr Bruwer's break with the Government as he was a staunch friend of the United States and of this Legation from whom useful information could be obtained on all kinds of political and economic matters."[445]

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[443] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0342, report of Totten to State Department dated 16 February 1932, page 1.

[444] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0342, report of Totten to State Department dated 2 September 1930, pages 2-3.

[445] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0342, report of Totten to State Department dated 2 September 1930, page 3.

8.8. Reflections on the timing of Bruwer's constructive dismissal

Bruwer's memoirs were so caught up in the first-person experience of what must have been a very traumatic time for him, that they missed the incredible coincidence of events that occurred from Britain's suspension of the gold standard, on 20 September 1931, to the announcement of a Select Committee on the gold standard in parliament on 22 February 1932. Bruwer failed to deal with this Select Committee in any detail. He can be forgiven for this oversight, as he was suffering the harshest social and political banishment at the time, and his energy at this point of his memoirs was spent dealing with this banishment. He also failed to mention in his memoirs his shameful signature to a propaganda exercise in support of the gold standard, signed by "seven prominent economists" (de Kock; 1954:140) which ran entirely contrary to his beliefs, but which bore his signature, and six others, in the same paper that carried an extract of an interview by Bruwer, the *Rand Daily Mail*, in which he was very critical of remaining on the gold standard.

The sequence of events was as follows: after a long track record of writing articles, and giving interviews that embarrassed the government, Bruwer was interviewed by Gustav Preller of *Onse Vaderland* on 25 September 1931, four days after Britain had abandoned the gold standard on 19 September 1931. Extracts of that interview were then reprinted in the *Rand Daily Mail* the following day. The speed with which all of this took place meant that Bruwer was publicly criticising the South African government days after it was faced with a new and unexpected monetary crisis. It was at this time that Bruwer's memoirs state that "de Kock and Holloway" were "designated as hatchet men to deal with Bruwer". Bruwer then noted "after that interview I had to hear that [Holloway] the private secretary of Havenga (he is ambassador in London today) was telling everyone that the government has already finished off Bruwer, he just has to be pushed"[446]. It seems probable that the government perceived that they had in Bruwer an existential threat, a highly educated senior civil servant who had a track record of being a loose cannon in the press, not hesitating to take on government policy. In short, the government had a dangerous opponent, at a time when the country was suffering a massive outflow of capital, and when its biggest constituency, the Afrikaner farmer, was suffering

[446] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 290 of Deel IV My Deelname aan die Politiek.

plummeting agricultural product prices. Bruwer had to be dealt with, and it is likely that Holloway was the one to do it. Botha's (2002) comment about Holloway's influence and authority seemed applicable at this time (Botha; 2002: 17-18). It seems likely that Holloway "commanded authority" during this monetary crisis.

Bruwer commented that Holloway and de Kock were his "biggest enemies" during the currency crisis in 1931 – 1933. Holloway mentioned, rather cryptically, in a December 1967 radio interview that:

> when Britain left the Gold Standard in 1931, people here began to ask: what is this thing that they call a Gold Standard, and who is there that knows anything about it? Many people came to me to ask my advice. … I expressed my views freely and frankly until the question whether South Africa should depart from the Gold Standard became a party-political issue. When this happened, my lips were effectively sealed since I was bound by what Lord Beveridge called the three-fold vow of public servants: 'Poverty, obedience and anonymity'. By that time, however, I had been called to a position behind the scenes, to advise the Minister of Finance on the monetary system. I had known Klaas Havenga since 1911 and in the intervening twenty years I had occasionally corresponded with him.[447]

By this arithmetic, Holloway began to work as Havenga's advisor on monetary policy in 1931. Holloway advised Havenga that "to destroy it [the gold standard] in order to solve a temporary problem [of the majority of farmers being unable to sell their produce at a profit] of adjustment, however big and important that problem might be, would be tantamount to cutting at the roots of free enterprise and of the freedom of the individual."[448] With this view dominant, the farmers plagued by plunging commodity prices stood no chance of the government devaluing the South African currency in order to end the price deflation of their produce. In Havenga, Holloway had found a fellow "sound money" fundamentalist.

[447] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, PV515, File 4-2-1, pages 2-3.

[448] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, PV515, File 4-2-1, page 3.

> When I worked in close contact with him I soon learnt that deep in his spirit there was such a belief in the need for safeguarding the probity of money that he was prepared to reject completely the very considerable political advantages to his party which he could have gained from a departure from the Gold Standard. In this he was strongly supported by his chief and lifelong friend, the Prime Minister, General Hertzog.[449]

One of the items in the Holloway Papers at the University of the Free State is an article which, in retrospect, shows just how out of touch with reality the economic intelligentsia of South Africa were in defending a failing gold standard. It was signed by the cream of the South African economics community: E. H. D. Arndt, A. J. Bruwer, S. H. Frankel, J. E. Holloway, A. J. Norval, C. W. Pearsall and C. S. Richards, or at least published in their names in the *Rand Daily Mail* on 14 October 1931 (De Kock; 1954: 140). The same newspaper that had carried the article quoting Bruwer as being critical of the gold standard, now carried one, signed by him and six others, praising the gold standard, only 18 days after the appearance of Bruwer's article. The odds of that being a coincidence are implausibly high. Holloway's guiding hand was likely involved. Given Richards's presentation to the Select Committee in March 1932 against the gold standard, it is equally perplexing why he would have signed it. What it perhaps shows is that Bruwer might not have been the take-no-prisoners speaker of truth that he claimed to be in his memoirs. His signature on this article suggests that compromise with the powerful may have explained why he survived so long in his post as Chairman of the Board of Trade and Industry. A draft copy in Holloway's file contains various corrections made by him in an attempt to make it more considered. The thrust of the argument was substantially the same as Arndt's submission to the Select Committee in March 1932, albeit considerably bolder and more strident. The article is worth considering as an example, in hindsight, of how stubborn adherence to a theoretical orthodoxy led to spectacularly inaccurate predictions and to misrepresentations of the data.

The article set out that:

[449]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, PV515, File 4-2-1, pages 4.

> The first effect of England's going off Gold Bullion Standard was to deprive South Africans, who had money in England at the time, of a certain percentage of their money.[450]

Two elements of this propagandistic approach stand out. The first is that, as is clear from the papers of Montagu Norman, Britain was forced off the gold standard in September 1931 and did not choose to suspend it. The second is that it is highly disingenuous to suggest that the "first effect" of Britain being forced off gold was that South Africans were "deprived" of their money, while many countries and entities across the globe were also affected.

The article claimed that certain sections out of South African society, specifically South African banks, farmers and other exporters, and merchants, suffered when Britain went off the Gold Standard. It described the predicament of the banks well: "in as much as they held assets in England against liabilities in South Africa: part of their assets depreciated, while their liabilities remained the same."[451]

Having set out the very few South Africans who were caught holding devalued pound sterling assets in September 1931, the article suggested that there was a devious plot to undo a virtuous institution:

> It is, therefore, to the direct and sectional advantage of these classes for South Africa to abandon the Gold Standard, and it is likely that they will bring pressure to bear on the authorities to achieve this end.[452]

The article acknowledged that banks with assets in London may have been facing "difficulties, the problem arising from them can be handled by banking practices usual in these

[450] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 article for multiple signatures entitled *South Africa and the Gold Standard*, page 1.

[451] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 article for multiple signatures entitled *South Africa and the Gold*, page 1.

[452] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 article for multiple signatures entitled *South Africa and the Gold*, page 1.

circumstances" [453]. The Montagu Norman Papers show that, in fact, the entire South African banking sector, which had assets in London, was insolvent, and urgent and emergency funding by the Union government was required to prevent a systemic banking crisis in South Africa. The dismissive attitude towards the fundamental and inherent instability of the banking sector was typical of "sound money" thinkers.

The article went on to argue the modern-day equivalent of Hume's Price Specie Flow Mechanism, in the form of a Purchase Power Parity argument. "Prices must rise in England and the disadvantage of England's action to South African exporters will only be of brief duration".[454] In fact "the Union, between 1929 and 1932, experienced a considerable decline in national income, both in monetary and in real terms; in the value of mineral production and manufacturing output; in prices; in the value of total exports; in both the value and volume of imports; and in employment" (de Kock; 1954: 145).[455] The crippling deflation that Britain had suffered, as a result of her fruitless decision to return to the pre-war parity gold standard in 1925, was merely reversed and the pound sterling did not strengthen, nor did inflation in Britain cause South African agricultural goods to be competitive. The article was wrong again.

It then went into detail about how the price of certain internationally-traded commodities had quickly adjusted to the drop in the value of pound sterling. If the author, or authors, had not been such a single-minded "sound money" fundamentalist, he may have read Keynes's 1925 article, *Mr Churchill*, in which Keynes showed that the fact that the prices of certain highly-tradable commodities adjust quickly to a change in exchange rate does not mean that the adjustment through the rest of the economy would be just as fast or as painless. The adjustment may come quickly in some sectors, but with great resistance and high unemployment in others.

[453] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 article for multiple signatures entitled *South Africa and the Gold Standard*, page 2.

[454] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 article for multiple signatures entitled *South Africa and the Gold Standard*, page 1.

[455] For detailed figures see Tables 7, 8, and 9 of de Kock (1954: 143-144). Arguably chapters 10 and 11 (pages 137 to 188) of Gerard de Kock's *A History of the South African Reserve Bank* (1954) are the best account of the 1931-32 monetary crisis in South Africa. For an account more current with the crisis, see the articles *The Situation in South Africa 1929 – 1932*, by Herbert Frankel, and *South Africa and the Gold Standard* by R. Leslie, both in the *Economic Journal, Vol 43, March 1933*. Both Frankel and Leslie were in favour of abandoning the gold standard.

The article admitted that British devaluation had breathed new life into its manufacturing sectors, but instead of allowing a similar benefit for the South African real economy, the reader was told to wait for the greater demand from higher British employment to trickle down into demand for South African goods, as if there were no price elasticity of demand for South African produce.

The article ended with the same tired "Cobbler's family" shoe argument first used by Cannan in his 1920 article,[456] as if the monetary policy example of a small economy, on the Southern tip of Africa, with a negligible GDP, would shame the rest of the world into compliance with a gold standard regime that Britain, and some of the biggest economies in the world, could not maintain. "For South Africa to abandon the gold standard, it was said, would be a case of the village bootmaker declaring boots expensive and unhealthy and parading himself and his family barefoot. This argument … probably exaggerated South Africa's influence in these matters" was how de Kock (1954: 157) tactfully put it.

Holloway's address to the Economic Society of South Africa, of which he was President for the 1930-1931 year, took place on 7 December 1931. The occasion found him wrestling with his preference for laissez-faire policy. Placed just before this typed address in Holloway's Papers was another paper by Kemmerer, entitled *Address by Edwin Kemmerer to the New York Advertising Club*.[457] No other economist featured as reading material in Holloway's papers as prominently as Kemmerer did. Holloway's address provides a fascinating contrast to Keynes's essay, *Mr Churchill*, in which Keynes explained the folly of a policy of maintaining an overvalued currency out of a misplaced sense of honour committing one to maintain the gold standard. Holloway started off well, noting with horror the fall in average commodity prices by "nearly 50% since the beginning of the depression"[458]. So far, his analysis was in line with

[456] Cannan, E. *Review: 'South African Currency'* in *Economic Journal, Vol 30, No 120* (December 1920), pp 519-530.

[457] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7, Address by Edwin Kemmerer to the New York Advertising Club.

[458] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 1.

that of Keynes's *Mr Churchill*. He then pointed out that not all countries had fared as badly as South Africa, that Italy and France had experienced a reduction in prices that "when reduced to a gold basis are respectively 7% and 2% below pre-war" levels."[459] Holloway failed to mention the obvious fact that both Italy and France had devalued substantially, providing welcome price relief to their farmers, whereas South Africa, following Holloway's rigid "sound money" advice, abandoned its farmers to crippling deflation. Holloway followed Keynes in noting that not all prices were falling equally, and that the burden of adjustment was falling unequally on farmers. "The brunt of the depression has fallen on producers of raw materials. (One remembers that merchants in several S.A. towns have repeatedly said that there is really no depression)."[460] He pointed out that, while highly capitalised producers of raw materials might have done better, "the effect on the farming classes has been to depress very considerably their standard of living" and to "transfer wealth from the producers … to the salaried, wage-earning and rentier classes".[461] Holloway continued, in the mode of Keynes, "I am inclined to think that a full return of prosperity cannot be expected as long as the economic maladjustment between various producing classes continues. … and … it will be a very slow and painful convalescence."[462] Holloway continued in the Keynesian vein onto the final page of his address, "Now I am not taking up the long discarded 'Laissez-faire' attitude. … The main stumbling block in the way of compensating downward adjustment in different directions has been the inelastic fixations of wages."[463] But, just when you would have expected Holloway to follow the Keynesian logic that he had been expressing so far, he snapped out of this mode of thinking and into the old orthodoxy that lower wages would encourage more employment, ignoring the shrinking effective demand caused by their fall. Holloway assumed a "long run"

[459] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, pages 1 - 2.

[460] J. E.Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 3.

[461] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 3.

[462] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 3.

[463] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 4.

in which all would be well, lower wages "will stimulate employment, and instead of having a relatively smaller number of units employed, each at a higher rate, we shall have a relatively larger number employed each at a lower rate."[464] While Keynes and Bruwer were moved by the suffering of those crushed by deflation to propose an adjustment in the currency, Holloway followed their logic for four pages, and then switched across in the last paragraph to support a painful adjustment, rather than abandon his sound money principles.

8.9. Holloway behind the scenes of the Parliamentary Select Committee on the Gold Standard

If one bears in mind that the government announced in parliament, on 22 February 1932, that it was appointing a Select Committee to deal with the question of the maintenance of the gold standard, then the urgency in casting Bruwer out of the civil service before then makes sense. His constructive dismissal on 6t February, and the editorial of *Die Burger* on 10 February 1932, shortly preceded the announcement of this Select Committee.

> A Parliamentary Select Committee was appointed, in terms of an order of the House of Assembly dated 22nd February, 1932 "to enquire into and report upon … (1) whether and to what extent the interests and the welfare of the Union demand the maintenance of the gold standard, and (2) in what way and manner a departure from the standard … would affect the interests and welfare of the country (de Kock; 1954: 141-142).

Holloway was intimately involved in the Gold Standard Select Committee of 1932 and brought his gold standard commitments to the task.

A foretaste of the approach he might take, and perhaps an indication of why Havenga would have wanted Holloway's advice, came two and a half months before the Select Committee, in Holloway's address to the Economic Society (7 December 1931, discussed above), and in Holloway's response to a Mr Lloyd, an unknown correspondent, who wanted to know what the chances were that South Africa would be "forced off the gold standard". Holloway said:

[464] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/7 Annual Address to the Economic Society of South Africa 1930/1931 year, page 4.

> I consider that the main risk of our being "forced" off the gold standard has now disappeared. Unless we must assume that our people will lose their heads completely, I see no real danger to the gold standard ahead. Admittedly we are experiencing great difficulties. And these difficulties are due to the economic conditions of the world. England's departure from the gold standard is one result of this. Our going off the G.S. would not help very much to put things right. It may give a few people some breathing space. It will however almost certainly be followed by greater difficulties. We cannot after all become better off by an act of parliament.[465]

History would prove Holloway wrong on both accounts, both in his prediction of South Africa not being forced off the gold standard, and in his suggestion that, if it was, it would be followed by "greater difficulties".

In their presentation before the Select Committee in 1932, *Barclays Bank (DCO)* reported that "overseas investors have shown a tendency to withdraw their investments", that "there has been a general desire to anticipate future payments in British sterling by converting South African money into sterling as promptly as possible … and obtain the benefit of the present premium. … There has been a general arrest of the inflow of capital into the country" and pressure on the banks to increase overdrafts in South Africa to alleviate this. *Barclays* recommended that South Africa abandon the gold standard and follow sterling.[466] The *Standard Bank* pointed out that maintaining the current gold standard "would place an insupportable burden on the farming community, local industries and export trade of the Union, and that such an adjustment of

[465] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 letter from Holloway to Lloyd dated 7 December 1931.

[466] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 Barclays DCO submission to the Select committee on the gold standard 1932.

exchange rates would cause heavy withdrawals of funds from the Banks in South Africa for transfer to London" [467]. *Standard Bank* recommended leaving the gold standard.[468]

The Transvaal Coal Owners Association's statement to the commission began by noting that "Practically all countries to whom it has been possible for South Africa to export coal … are on British Sterling Currency". It went on to explain "since the date of Britain's departure from the Gold Standard on 21 September 1931, it has been altogether impossible for the Transvaal Collieries to do any export business whatsoever except at definite actual losses."[469] The Chamber of Commerce felt that "The detachment of the currency of the Union from its existing gold basis would not only benefit the primary producer" but also "check the outflow of capital and encourage its return … enable capital to be raise overseas … (and) facilitate the marketing overseas of our primary products."[470] Similarly, the Chamber of Industry proposed "the detachment of Union currency from its present gold basis".[471] The South African Agricultural Union, in its submission, pointed out that leaving the Union currency overvalued meant that "the farmer's markets over-seas, … have been fast slipping out of his reach."[472] The Gold Producers' Committee of the Transvaal Chamber of Mines produced a 24-page statement for the Select Committee, recommending that the government devalue the Union currency. "A devaluation of the Union currency … is the policy the adoption of which the Gold Producers' Committee recommends. … Whether the Union should adopt as a temporary measure an

[467] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 Standard Bank submission to the Select committee on the gold standard 1932.

[468] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 Standard Bank submission to the Select committee on the gold standard 1932.

[469] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 Transvaal Coal Owners submission to the Select committee on the gold standard 1932.

[470] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 The Association of Chamber of Commerce of South Africa submission to the Select committee on the gold standard 1932.

[471] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 South African Federated Chamber of Industries submission to the Select committee on the gold standard 1932.

[472]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/53 The South African Agricultural Union submission to the Select committee on the gold standard 1932.

inconvertible currency maintained approximately on a par with sterling is not discussed in this statement."[473] Regarding the danger of inflation, they felt that "there does not appear to be any likelihood of a substantial increase in the cost of living because the Union leaves the present gold standard and devalues its currency to the extent mentioned. … There has been no increase in the cost of living in Australia and in the United Kingdom since these countries left the gold standard, and in Scandinavia the increase has been negligible. There is nothing in South African conditions to indicate that a different position would arise here, more especially as articles of local production enter so largely into the cost of living in the Union."[474] The Gold Producers were more accurate than the "sound money" advocates in their predictions of what would follow devaluation. "Confidence would revive, new capital would flow into the country, and capital which has migrated would return; all mining and industrial activities would be stimulated"[475] if South Africa devalued.

The *Netherlands Bank of SA* took a minority view in support of the gold standard. It calculated that 54% of world trade was conducted by countries still on the gold standard, compared to 28.5% of countries which were "close to parity with sterling". It stated that "even with the admitted export of some capital from the country, the position of the S.A. Reserve Bank shows distinctly that the pressure on the Exchange has not been excessive of late" [476]. Not only was the *Netherlands Bank* to be proved devastatingly wrong by the end of the year, but its previous Managing Director, Johannes Postmus, was intimately involved in reporting the insolvency of the major South African banks when Britain was forced off the gold standard in the previous year (see pages 205-206), making this statement not only wrong, but ironically so. The SARB's

[473] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 Gold Producers Committee of the Transvaal Chamber of Mines Statement on the Gold Standard for the Select committee 1932, page 5.

[474] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 Gold Producers Committee of the Transvaal Chamber of Mines Statement on the Gold Standard for the Select committee 1932, pages 7-9.

[475] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 Gold Producers Committee of the Transvaal Chamber of Mines Statement on the Gold Standard for the Select committee 1932, page 17.

[476] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 The Netherlands Bank of South Africa Statement on the Gold Standard for the Select committee 1932, page 1-4.

submission to the Select Committee was another example of why one should maintain a healthy scepticism when reading "expert" reports from official bodies. It started by nailing its colours to the mast, "The gold standard is admittedly not a perfect monetary standard, but it is the best yet devised by man."[477] The memorandum neglected to mention that it had had to ask the government for emergency funding for the banking sector to avoid the collapse of the system only a few months earlier, and stated, seemingly unaware of the irony, that "[t]he position of the commercial banks in the Union is also satisfactory … their cash reserves in the Union amount to £6 925 000, equivalent to 12,22% of their liabilities."[478] The only underlined part of the SARB's submission was the one claim that turned out to be untrue just nine months later. The SARB stated that, "contrary to the experience of a large number and variety of countries, the Union has got adequate exchange resources and is in a balanced position in regard to all payments due to or by other countries."[479] By the end of December 1932, these underlined "resources" had dried up and the Minister of Finance, so committed to the gold standard, had to admit defeat and abandon it.

The submission of Professor C. S. Richards was that "the balance of economic advantage to the Union has lain for some time in the abandonment of the present gold standard."[480] Professor Arndt's submission was that South Africa should maintain the gold standard. Even if it did not, there was

> every possibility of our exchange rate remaining pretty much unaltered.[481] … The proposal locally is intended primarily to assist agriculture and the low grade mines, …

[477] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 The South African Reserve Bank Memorandum Re Gold Standard for the Select committee 1932, page 1.

[478] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 The South African Reserve Bank Memorandum Re Gold Standard for the Select committee 1932, page 7.

[479] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 The South African Reserve Bank Memorandum Re Gold Standard for the Select committee 1932, page 6.

[480] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 Prof C. R. Richards submission to the Select committee on the gold standard 1932.

[481] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 E H D Arndt submission to the Select committee on the gold standard 1932, page 1.

> in the case of agriculture, the potential gains are not so certain as in the case of the mines.[482] … Notwithstanding all its weaknesses, the world after 1925 returned to the gold standard and is likely to do so again.[483]

The last memorandum in Holloway's Gold Standard Select Committee file was his own. It was a classical set of arguments in favour of "sound money", with an accommodative twist typical of Holloway and indicative of the flexibility of his intelligence. Holloway began by answering his question about what functions money must serve in society: that it must firstly be a unit of exchange, and secondly that it must be a unit of value, and particularly of value in credit relationships.[484] He then followed the arguments of John Locke in his debate with William Lowndes (see pages 41 - 43 above), arguing that just as common agreement on how long a foot was enabled agreement on measurement in all countries, so too common agreement on the gold content of every unit of currency in the world meant that economic stability was possible.[485] Postmus, in his submission, used the same argument, "interference with the measure can never make your cloth longer or the surface of your table greater, and that creating bad money will never create better business, but the reverse" (quoted in de Kock; 1954: 155).

Holloway set out two sets of composite indices of commodity prices in Britain, the first for the period 1845 – 1909, when Britain was on the gold standard, and the second for 1913 – 1927, for most of which Britain was off the gold standard. Holloway argued that this showed that the gold standard caused price stability and abandoning the gold standard invited inflation. But this is not what the data showed at all. Fisher's equation, and that of Pigou's Cambridge

[482] J E Holloway Papers, Archive for Contemporary Affairs, Free State University, PV 515 1/G2/52 E H D Arndt submission to the Select committee on the gold standard 1932, pages 5 & 9.

[483] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 E. H. D. Arndt submission to the Select committee on the gold standard 1932, page 13.

[484] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J E Holloway submission to the Select committee on the gold standard 1932, page 1.

[485] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 2.

version[486], resulted in the hybrid one upon which "sound money" thinkers (like Holloway) rely is MV=PQ, where M represents the quantity of money in a country, V the money's velocity of circulation, P the median price per transaction in the economy and Q the total quantity of goods. The Quantity Theory is not simply this equation, which is merely an accounting identity. The main thrust of the Quantity Theory of Money is that an increase in M causes an increase in P. What Holloway was arguing was that, by submitting oneself to the discipline of a gold standard, money supply (M) cannot grow disproportionately to the quantity of goods (Q) in the economy, and so inflation, the rise in prices (P), is relatively contained. But if Holloway had used a wider set of figures, from, say, just before the suspension of the gold standard in 1797, another story may have emerged. It was not a lack of will that prevented Britain from returning to the gold standard after the panic of 1797. Rather, there was an explosion of demand for the goods (Q) necessary to fight the Napoleonic Wars, and so Q expanded enormously (Laidler in Palgrave; 1987, Volume 1:290). With the explosion of the demand for Q, the money necessary to pay for the war was created by means of government Treasury bonds, and hence M, the money supply, had to expand in order to pay for these goods. There was simply not enough gold to maintain the standard. As an indication of how it was not possible for a country simply to will itself back on the gold standard, consider the fact that parliament took a decision to return to the gold standard immediately, in 1811, but only managed to return in 1821, a full decade later. Holloway, like many "sound money" thinkers, mistook correlation for causality. In addition, Holloway was guilty of:

> the basic error made by this ("sound money") school of thought, namely, the mistake of fearing inflationary pressures at a time of deep depression. In view of the low levels of income, output and employment in South Africa and elsewhere and the declining tendency of world prices, it might have been realised the depreciation of the Union pound would be unlikely to start a serious inflation internally (de Kock; 1954: 154).[487]

Holloway pointed out that the demand for luxury items had fallen since the fall in the stock market in October 1929. "During the depression the demand for products like diamonds, fruit,

[486] Fisher used MV=PT, where V is the transactions velocity and T is the actual number of transactions. MV=PQ is closer to Pigou's Cambridge version of the quantity theory (M=kPY) where k = 1/V, but Y (or Q) is total output.

[487] De Kock (1954:154) refers the reader to part IV of his book, for evidence that there was in fact no substantial spike in inflation once South Africa was forced off the gold standard in December 1932.

wine, and tobacco had fallen. … the demand for wool also falls, due to the fact that clothes are worn far longer than during good times."[488] Holloway pointed out that the cause of the problems for many South African industries was the collapse of global demand, and not the existence of the gold standard, and claimed that "there was no certainty that leaving the gold standard would bring relief."[489] Even if we grant him that the gold standard was not the *cause* of the unprofitability of so many sectors of the real economy in South Africa since 1931, it did not follow that leaving the gold standard was not the *solution*. To argue that devaluation would not help the "diamonds, fruit, wine, and tobacco" producers, or other farmers and miners, is to argue that there was no price elasticity of demand for these goods, an extraordinary claim for a neo-classically trained economist.

Having employed John Locke's arguments about the necessity for fixed measurement, and the standard "sound money" arguments against inflation, Holloway went on to use the remaining three arrows in the standard "sound money" quiver – the honour and trustworthiness required not to disappoint one's creditors and commercial partners, an argument against sectoral targeting, claiming that it was a zero sum game, and the charge that exchange rates must be taken as given, and internal prices and inefficiencies must adjust. If South Africa left the gold standard "It means the breaking of the bond of the nation in its mutual trading relationships and the breaking of the healthy foundations of the commercial relationships with other nations. … the economic life of every modern nation in their trading relationships relies on credit relationships."[490]

This breach of trust with South Africa's creditors would have damaged its standing with the bankers of the world. Here Holloway also followed the "sound money" tradition of not wishing to break trust with bankers, but he was willing to do so with regard to the interests of the producers, particularly farmers, within a national economy.

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[488] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 7.

[489] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 7.

[490] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 8.

Holloway claimed that a breach of trust with creditors would have translated into specific harm to the economy. "If we devalue by X, our purchase power would reduce by X + Y, with Y being the result of the reduction in the trust caused by the abandonment of the gold standard. … (and) because South Africa is a relatively young country, Y would be bigger than in the case of Great Britain."[491] Holloway sent a sound warning – weaker countries, with smaller domestic markets, which rely on foreign capital for development, have less flexibility to vary the price, quantity, and return on money (the interest rate) , than larger economies, which raise most of their capital domestically.

Another typical approach of global laissez-faire "sound money" thinkers is to warn against policy designed to promote particular sectors of a national economy, and to claim that this promotion will come at the expense of other sectors. It was claimed that policies that add to one sector take away from others, resulting in government having played a zero-sum game. Anyone who absorbed the information in Keynes's *Mr Churchill* (1925) would have been sceptical of this claim. Holloway set out this argument in pages 10 and 11 of his memorandum. His tendency to brush aside sector analysis was also evident in the next section of his memorandum, when he set out the favourable current account balance that South Africa had enjoyed, not just from 1923 to 1929, but also from 1929 to 1931. He did so to prove that South Africa had the positive balance of trade necessary to sustain the gold standard. But Mike de Kock's son, Gerhard de Kock (1954), explored the sectoral detail more thoroughly and came to a different conclusion. De Kock set out sectoral production figures that showed a steady decrease in manufacturing from £54.5 million in 1929 to £47.6 million in 1932. He also set out figures showing the decline in employment per sector, with employment in secondary industry falling from 1 202 000 in 1929 to 1 002 000 in 1932, and mining & transport employment declining (in the same period) from 1 118 000 to 1 011 000, roughly half the decline from "secondary industries" (de Kock; 1954: 144).

> Naturally, the sharp and sudden reduction in the value of the Union's exports induced a decline in national income through the combined working (in reverse) of the national

[491] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 10.

> income multiplier, the acceleration principle and the ordinary investment multiplier. … an enormous decline took place in total net domestic investment between 1929 and 1932. Net *private* domestic investment, in fact, seems to have been negative in 1932-33, i.e. net private *dis*investment took place, while net public domestic investment, normally a very significant part of the Union's total net domestic investment, was reduced sharply during the depression in conformity with the Government's orthodox fiscal policy (de Kock; 1954:145).

De Kock (1954) pointed out that after Britain abandoned the gold standard, capital estimated at between £9 and £14 million left South Africa (de Kock; 1954:147). He stated that, while South Africa did not suffer a Balance of Payments problem, a possible imbalance was avoided by "the exceptional decline in the value of the country's imports from £83.5 million in 1929 to £32.8 million in 1932, as compared with the much smaller drop in the value of exports from £97.9 million to £69.0 million during the same period" (de Kock; 1954: 148).

After South Africa was forced off the gold standard in December 1932, the US Consulate General in Pretoria reported on the situation just prior to the end of 1932 as follows:

> The powerful mining and financial groups started an immediate campaign of purchasing for transmission to Great Britain, and failing that, withdrawing large sums of gold from the commercial and Reserve banks in exchange for paper money, and then forwarding the gold to England by express. It is estimated that between £3 000 000 and £4 000 000 in gold sovereigns were withdrawn and exported, with the result that the banks were stripped of their gold, and there was an element of panic in the situation. The Reserve bank, at the instigation of the commercial banks, approached the Minister of Finance and practically demanded that they be relieved from the law specifying that gold could be had on demand in exchange for bank notes.[492]

In his memorandum, Holloway ignored the fact that most of Latin America, Australia, New Zealand, Britain and its colonies, Canada, Mexico, Norway, Sweden, Finland, Lithuania, Latvia, Estonia, Portugal, Spain, Denmark, the Irish Free State, and Greece all abandoned the

[492] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a/0365, report of Totten to State Department dated 3 January 1933.

gold standard, most of them before Holloway's memorandum of 1932 (Eichengreen; 1992: 339). Holloway quoted from Keynes, suggesting a remedy counter to his own instincts:

> A simultaneous lifting of prices to the point where they are more in harmony with the great capitalist foundation can be achieved by a process of inflation, or by a process of devaluation. J M Keynes of the University of Cambridge is of the view that the world can only be saved from financial catastrophe through a world-wide and organised process of inflation. Regarding global conditions, he said "The immediate cause of the world financial panic are (sic) to be found in a catastrophic fall in the money value of practically every asset – a fall which has proceeded to a point at which the assets, held against money debts of every kind, including bank deposits, no longer have realisable value in money equal to the amount of the debt. Debtors of all kinds no longer have assets equal in value to their debts. Few governments still have revenue equal to the fixed money charges for which they have made themselves liable … unless we achieve a world-wide, organised inflation, the only alternative solution is one of general default of debts and the disappearance of the existing credit system, followed by the rebuildings (sic) on quite new foundations". After the experience of certain countries since 1914, and particularly countries like Germany and Austria, there will surely be very few countries who would want to sacrifice their finance virtue on the slippery slopes of inflation.[493]

Holloway suggested that, for countries with a well-organised financial system, there may be something to be said for Keynes's proposal. But for a country with only two big banks, Keynes's proposal was "extremely dangerous" and "unacceptable". Why Holloway bothered to quote this analysis from Keynes in the first place became apparent in the final pages of his memorandum. Having warned against devaluation, on page 22, Holloway changed tack: "assuming that the state accepts the principle, then the following questions immediately spring to mind (a) on what basis must there be devaluation, (b) how would the interests of the different interest groups be affected by this devaluation, and (c) by what path can devaluation be

[493] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 19.

implemented?"[494] Holloway went on to suggest that such a devaluation could only be undertaken after a careful and through investigation, and after consulting all of the necessary indices of prices in South Africa.[495] Holloway explored the idea that it might be necessary to devalue to achieve parity again between the South African and British pounds, "but then it will only be necessary to devalue the gold content of our Pound, in order to bring our devaluation in line with that of Pound Sterling."[496]

Answering his question (b), Holloway stated that what was needed was to separate the interests of the foreign capital from those of domestic interest groups. The foreign capital group was made up of two sub-groups, the creditors who loaned the South African state money in pounds sterling, and the investors in South African productive sectors, mining, manufacturing and agriculture. Given that the pound sterling had devalued, a devaluation of the South African pound by the same degree would have left the debt level the same, and therefore there could have been no complaint by the creditors. The second group would all have benefited, as the productive sector that they had invested in would benefit from the devaluation. The third group, who would have been negatively affected, were those who, through South African intermediaries, had loaned money in South Africa "which mainly went into mortgage bonds on South African farms."[497] Although very gingerly set out, with many caveats and potential counter-arguments, Holloway put forward, in this March 1932 memorandum to the Parliamentary Select Committee on the Gold Standard, a mechanism which would maintain the *form* of the gold standard, with the *flexibility* of the "development money" paradigm. To return to the example of the debate between John Locke and William Lowndes, Holloway used the rhetorical technique of Locke, but ended up exploring the idea of William Lowndes in "crying down" the value of the currency, in order to fix a disequilibrium in the national

[494] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J E Holloway submission to the Select committee on the gold standard 1932, page 22.

[495] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 23.

[496] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 24.

[497] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/G2/52 J. E. Holloway submission to the Select committee on the gold standard 1932, page 24.

economy (see pages 41 - 43 above for the arguments of Locke and Lowndes). It is an interesting question whether Holloway was aware of the extent to which he had wandered over into "development money" thought with this innovation of his. The idea of varying the price of gold relative to the currency or, to put it the other way around, of devaluing the currency relative to gold, appeared very tentatively in Holloway's 1932 memorandum, and equally hesitantly in a speech marked "not delivered – prepared for N C Havenga" and dated 12 June 1937, when Havenga and his newly-appointed Secretary of Finance, Holloway, were in London attending the Imperial Conference.

The fact that it was "not delivered" suggests that Holloway was still not sure about the idea. His "undelivered speech" would have told the delegates "that our respective countries expect the Conference to speak with a clear voice on the question of monetary policy".[498] On the final page, Holloway got to the question of a changed gold price in a revised gold standard, "a reduction in the price of gold is not only not a suitable instrument for dealing with our present monetary and price problems, but is also a highly dangerous double-edged weapon."[499] Holloway hoped that by committing to the restoration of the gold standard at a higher gold price, the conference could shake off the destabilising rumours that further deflationary policies might be pursued. The idea of a gold standard with a flexible gold price resurfaced in February 1944, in Bruwer's proposal to Keynes, and then again, more forcefully still, in Holloway's proposals during the Bretton Woods conference. It took until June 1944 for Holloway to be willing to express them forcefully. As discussed above, Holloway seemed unaware that similar ideas had been explored by Fisher in 1911, and more fully developed and set out in his book *Stabilizing the Dollar* (1920), and that Keynes had critiqued them in the *Tract* (1923: 155). By advocating the technique of increasing the price of gold in a gold standard in his proposals at Bretton Woods, Holloway attempted to marry "sound money" ideas with "development money" ones and attracted the interest and praise of Keynes.

Holloway attended the Imperial Conference in Ottawa, Canada, as Havenga's advisor in 1932. A document entitled *The Objectives of Monetary Policy*, published by the Canadian

[498] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/G2/11 Undelivered speech prepared for N C Havenga, dated 12 June 1937, London, page 1.

[499] J. E. Holloway Papers, Archive of Contemporary Affairs, University of the Free State, File 1/G2/11 Undelivered speech prepared for N C Havenga, dated 12 June 1937, London, page 5.

government, had the words "Dr Holloway" at the top in Havenga's handwriting,[500] as an indication of Holloway's role. Also in his archives from this time are the transcriptions of a Senate Committee hearing which took place in Washington between 21 and 28 March 1932, with Holloway's handwritten note "pages 235 – 285", which was the section of the report that contained the testimony of Kemmerer.[501] In the same year, Holloway "stayed at his [Kemmerer's] home in Princeton one night in 1932."[502] In 1933, Holloway attended the World Economic Conference in London, which had the aim of stabilising currencies. The French franc had been competitively valued for some time, and the pound sterling had devalued in September 1931. Taking the opposite position to that of the Hertzog government, FDR had refused to commit to stabilisation, fearing that the dollar might end up overvalued and that US exports would be negatively affected.

Evidence of Holloway's increased status came from his correspondence at the time with Professor Irving Fisher, who was looking forward to Holloway's "report on the World Economic Conference".[503] Holloway wrote to Fisher, informing him that he was in the United States and wanted to meet. Fisher responded to Holloway in November 1932: "I am more sorry than I can say and not only because I disappointed you but because I am myself disappointed. I would particularly liked [sic] to talk to you about stabilization."[504] Given that Fisher's book on a CPI-linked dollar, with a variable gold content, was entitled *Stabilizing the Dollar* (1920), it is likely that this was the subject Fisher had in mind for discussion with Holloway in 1932. As mentioned earlier, the great summarising sentence on the subject by Fisher (1920) was that, "[t]he gold dollar is now fixed in weight and therefore variable in purchasing power. What we need is a gold dollar fixed in purchasing power and *therefore variable in weight*" (Fisher; 1920: 90) (italics his). I found no evidence, in Holloway's various archives, that he had discussed his

[500] J. E. Holloway Papers, National Archives, Pretoria, Collection A80, Box 20

[501] J. E. Holloway Papers, National Archives, Pretoria, Collection A80, Box 20

[502] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/A1/1 letter from Holloway to Donald Kemmerer dated 5 March 1975.

[503] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Fisher to Holloway date unclear, but probably November 1932.

[504] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Fisher to Holloway date unclear, but probably November 1932.

very similar idea with Fisher, nor is there much of Fisher's work in Holloway's papers. It seems that Holloway did not follow Fisher's work closely, unlike Kemmerer's, which features prominently in Holloways papers. It seems that, despite their commonalities, Fisher's thorough treatment of a variable-price gold standard, and Holloway's work getting this idea into the Bretton Woods Agreement, were arrived at separately.

8.10. Summary and Conclusion

The monetary policy battles in the life of Bruwer, and maybe even of Holloway, covered in this chapter, are dramatic. Just as interesting, however, is the development of monetary policy ideas that this chapter records. Bruwer made a brave and spirited attack on the folly of maintaining an overvalued currency in the face of collapsing commodity prices. With hindsight, the consensus of expert opinion accords with Bruwer's advice to devalue.

Also intriguing is the attempt by Holloway and Fisher to meet each other in November 1932, after Holloway had tentatively argued for an adjustment of the price within the gold standard earlier that year. Irving Fisher was one of the great minds in monetary theory and his interaction, albeit limited, with Jack Holloway which I have discovered in Holloway's private archive is highly significant. There is very little of Fisher's work in Holloway's papers, and only one letter as evidence that they communicated, and yet 1932 was a year of meeting of minds for these two men, as Holloway mentions, almost as an afterthought, a variable price gold standard, an idea that Fisher first explored in 1911, and later fully developed in his 1920 book. As a result of the calamity of the 1931-32 monetary crisis, Holloway became more vehement in advocating a variable priced gold standard, until it was finally embodied in Article IV, Section 7 of the Bretton Woods Agreement. Unlike de Kock, Holloway was never accused of plagiarism, and there is no evidence of him claiming credit for someone else's idea. This suggests that the reason he did not credit Fisher in any of his writings is that he did not know of Fisher's 1920 work.

CHAPTER NINE: BRUWER'S REFLECTIONS ON POLITICS AND ECONOMICS WHILE IN THE WILDERNESS (1932-1945)

9.1. Introduction

Often someone's best work is written in isolation and solitude. *Capitalism, Party Politics and Poverty* (1934) written "in poverty and alone", after Bruwer lost his election bid as an independent candidate in the Pretoria West constituency in 1933,[505] is to my mind his most interesting book. It has the most encompassing philosophical sweep of all his books, and it was written at a watershed moment in history, with FDR, Hitler and Stalin in the ascendency in their respective countries. Bruwer was never a supporter of unregulated global free market capitalism, and he thought, writing in 1933-34, that it was dying. At this stage, therefore, he briefly flirted with the idea of supporting both the Nazis and the Soviets, essentially because they were both seen in some circles at that time as anti-capitalist movements.

Bruwer claimed in his memoirs that his treatment by the Afrikaner establishment after 1932 caused him to develop a repulsion for fascist movements. But absent from these memoirs is the fact that he helped to form the proto-fascist organisation, the National Workers Union, "the Brownshirts", in Pretoria in September 1934. This movement was dissolved in 1936 (Shain; 2015: 76 & 318). After that, he changed his mind about the Nazis, and as the editor of *Trek* magazine he wrote numerous articles supporting the war effort and opposing Nazi Germany. This led to Bruwer receiving a letter from Prime Minister Smuts in June 1940, thanking him for his part in fighting the Nazis.[506]

9.2. Bruwer as a political opponent of the National Party

After his resignation from the Board of Trade and Industry on 6 February 1932, Bruwer got to know Dr Willem Steenkamp, the Independent Member of Parliament for Springbok, who

[505]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 70 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[506]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 80 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

agreed with Bruwer on monetary policy.[507] When Britain was forced off the gold standard in 1931, and South Africa refused devaluation, farmers suffered tremendously from the double blow of lower prices for farm produce, and an overvalued South African pound. Britain, during its struggle from 1925 until September 1931 to avoid devaluation, had tried to use subsidies to affected sectors, particularly farmers, to ease the burden. This had not worked, and Britain was forced off the gold standard on 19 September 1931. Havenga, in turn, was determined to use the same failed subsidies to support the same failed policy of an overvalued currency. In response to a defence of these subsidies, and further import tariffs, by Havenga in parliament in 1932, Steenkamp commented that "the Minister of Finance makes me think about a man who feeds his dog by cutting off its tail and serving it to him."[508]

After his resignation, Bruwer was free to campaign against government monetary policy, and he actively entered the political fray. But the timing of his entry into politics was not ideal. "The urban working classes, particularly on the Rand, began to appreciate that political action outside of the two major parties was futile at a time when there was acute party rivalry" (Turrell; 1977: 31). Bruwer was particularly inept at politics, and fails to mention his failures in 1932 in his Memoirs. In April 1932 Bruwer attempted to form a new party, and offered the leadership to Tielman Roos, who declined (Britz; 1987:184). The inaugural congress of the Central Party was "broken up by a piece of hooliganism on the part of the Natal delegates" (Turrell; 1977: 30). Then Bruwer attempted to stand as a candidate in the Colesburg by-election in July 1932, but his supporters failed to turn up at the nomination court, and his nomination was therefore declined (Turrell; 1977: 31). By the time of the Germiston by-election, Bruwer had split from the Central Party, to form the National Economic Bond (Lewis; 1977: 8). Bruwer focused on workers and the unemployed, and was generally well received by these constituents in the Germiston campaign (Lewis; 1977: 8). Lewis explained:

> It was for this reason that the Nationalists reserved their roughest treatment for the Central Party and the National Economic Bond. The Nationalists feared that these parties – both claiming to represent the Afrikaner dispossessed – would draw off the

[507]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 46 of Deel II Kontak met Persone.

[508]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 50 of Deel II Kontak met Persone.

> votes of Afrikaner workers and unemployed. Dr Bruwer was physically attacked, sustaining serious injury, whilst the meetings of the Centre [sic] Party were forcibly disrupted. (Lewis; 1977:11)[509]

The meeting at which Bruwer was assaulted was addressed by Havenga. When Bruwer questioned him about the pain that his monetary policy was causing farmers, Bruwer recounted:

> Later I was knocked out at Havenga's meeting, a meeting to which I was invited by the organisers. The attacker was unemployed and approached me from the platform from which Havenga was speaking, he was a member of the Minister's body guards. Not one word of censure came from the mouth of the famous and upstanding Minister. Later I discovered that the attacker was paid £1 for his work that night. For that he was to mutilate me. And when the instigator was bought before the court, and it was clear that the case was going against him, the proceedings were suddenly stopped. A senior official in the department of Justice told me that the great interest in the case by Oswald Pirow, the then Minister of Justice, was the cause of the adjournment. When the court resumed, the culprit was given a fine of £1 or a week in jail.[510]

At a different point in his memoirs, Bruwer provided new information on this incident. He recounted that he had asked Havenga at the meeting, "Why were you in favour of devaluation in October 1921, but against it in October 1931?" He also asked Havenga why he had paid a subsidy to Imperial Airways of £150 000 more than they had asked for, and why he had seconded the motion of loyalty to the King of England at the Ottawa Conference in 1932?

Bruwer then described being hit from behind, and his wife tearing her dress in an attempt to get to him.[511] "The day after the attack, the report in *Die Volksblad* of Bloemfontein (on 23 November 1932) had an article with thick black letters 'The honour of the Afrikaner is restored.

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[509] Lewis (1977) sites an article in The Star of 24 November 1932 "Dr Bruwer's injury".

[510] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, Section III Contact with the Party Political (previously I accuse Havenga) page 21.

[511] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 336 of Deel IV My Deelname aan die Politiek.

Dr Bruwer walks under the knots [i.e. he is beaten about]. Perhaps still in the direction of the hospital."[512] Havenga did not respond, despite the attack having occurred directly in front of him. He addressed the meeting, "Questions in English are now invited. The questioners will be protected."[513] The results of the Germiston by-election was a victory for the South African Party with 4 257 votes. The National Party candidate obtained 3 076, the Labour Party candidate 132, Bruwer's National Economic Bond candidate received 51 votes, and the Central Party candidate 33 votes. (Turrell; 1977: 32)

9.3. Bruwer's interest in Nazi Germany and the Soviet Union

In his memoirs, Bruwer credited the above-mentioned incident as being a turning point in his attitude towards the rising Nazi-fuelled antisemitism in Europe and stated that it had galvanised him into taking a stand against it. While Bruwer did, through his publication *Trek*, fight Nazism and its antisemitism, the timing of his conversion was not, as Bruwer would have us believe, in 1932. In his 1934 book *Capitalism, Party Politics and Poverty*, Bruwer spoke positively of anti-laissez-faire forces, including the Nazis. Bruwer did not single out Nazi Germany, but rather spoke with approval of the move away from market-focused societies, towards those of Lenin's Russia, Mussolini's Italy and Hitler's Germany.

> To wake up the divided, powerless, and demoralised Russian, Italian and German People, big figures like Lenin, Mussolini and Hitler must act in the most extremist way … Who will forget Mussolini's motto 'Live dangerously', Lenin's 'Hate what, until now, you loved, and love what you hated?' `And Hitler's 'What we want … something to kill the Jews'? … And also, South Africans must act in an extremist way if they want to achieve something, years of drugs and alcohol has to be expelled from the body of the people (Bruwer; 1934:230).

Bruwer praised both the Marxist and the Fascist alternatives to Capitalism: "Russia has social freedom. The prostitute, that produce of capitalism, is not prosecuted. Women are free to have

[512]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 337 of Deel IV My Deelname aan die Politiek.

[513]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 338 of Deel IV My Deelname aan die Politiek.

abortions" (Bruwer; 1934: 44). "The great thinkers of the 19th century, Wilberforce, Lincoln and Karl Marx, put the interests of humanity before those of private profit" (Bruwer; 1934: 45). "Fascism can be described as the transition of capitalism to a new world order. It is said that savings will not be forthcoming under a socialist system, but the Russians mobilised £6,7 billion investment in their first 5-year plan (Bruwer; 1934: 45 - 46).

Bringing this anti-capitalist rhetoric to the South African context, Bruwer quoted from J. A. Hobson's *Imperialism: A study*:

> The South African War, openly fermented by gold speculators for their private purposes, will rank in history as a leading case of this usurpation of nationalism. Regarding India he says 'The idea that we are civilising India in the sense of helping her to industrial, political and moral progress along the lines of our own civilisation is a false impression … this false impression is maintained by the flawed reasoning that imperialism uses and by the plaiting together of all these dry rules to cover its nudity and *the advantage that certain interests suck out of the 'Empire*' [Bruwer's emphasis] (Bruwer; 1934: 48).

In fairness to Bruwer, the worst excesses of Nazi-Germany and Stalinist Russia still lay in the future, and when he became aware of their excesses, Bruwer's enthusiasm for Hitler and Stalin waned. On 24 February 1941, Bruwer was asked to address an anti-Nazi demonstration. In his speech, one gets a glimpse of how Bruwer could have been both hopeful about Nazi rule in 1934 and appalled by it in 1941.

> Behind the smoke-screen of anti-Semitism, lebensraum, anti-Versailles talk and all the other mystical and mythical nonsense dished up as German culture, this dastardly task was achieved: the mighty German nation, awe-inspiring in its energy, was deprived of all the liberties which the Weimar Republic failed to safeguard, and it became in service of the neo-capitalist, … men with the outlook of gangsters … Do not let us fall into the same trap: do not let us be blinded by National Socialism which was <u>national</u> only when

> Hitler faced Hugenberg and Thyssen, and *socialism* only when he faced the German unemployed who became easy prey to his demagogy.[514]

Bruwer attacked some of his fellow Afrikaners who were against British imperialism, but who supported Nazi, Japanese and Italian imperialism.[515] Found in the box of his papers, abandoned on the farm Mymering, and long after it had passed out of the hands of the Bruwer family, were three books on left-wing politics, Salvemini (1938), Laurat (1940) and Sloan (1941).[516] In each book he neatly inscribed his name and the date.

9.4. Bruwer's candidature in the 1933 Election

For the general election held on 17 May 1933, Smuts and Hertzog were in coalition. Bruwer stood as an independent candidate for the Pretoria West constituency against Colonel Mike du Toit, former Commissioner of Police, the coalition candidate.[517] Du Toit did not address a single open meeting, but Mrs Isie Smuts and others in the coalition held house meetings for their candidate. Bruwer hoped that Tielman Roos, speaking in support of him at Bruwer's public meeting a week before the election, would provide the final boost necessary to win. There were good grounds for Bruwer's reliance on Roos. Roos had returned to politics the previous December, using as his platform Bruwer's insistence that South Africa should leave the gold standard (Brits; 1987:186-187). But Roos's previous friend, Oswald Pirow, used his influence as Minister of Railways and Harbours to put up a decoy "independent" candidate, Mr Frans Hopf, who "came from the ranks of the Railways, to attract some Railway worker

[514]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 86 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[515]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 97 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[516] These were two books from the *Left Book Club*: Gaetano Salvemini's 1938 *Italian Fascism*,[516]and Lucien Laurat's 1940 *Marxism and Democracy*, and Pat Sloan's *How the Soviet State is run* (1941), London. Lawrence and Wishart Ltd.

[517]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 38 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

votes"[518] away from Bruwer, who actively campaigned amongst working class Afrikaners. On the day of the meeting, Bruwer went to the Folleys Hotel, where Roos was staying, to discuss the meeting, and saw Hopf and Roos walking out of Roos's hotel room together. Bruwer's "heart sank into his shoes". That night Roos failed to endorse Bruwer, and just urged the voters not to vote for the coalition candidate.[519] The result was that the National Party's decoy candidate got 1000 votes, and Bruwer lost the election by 114 votes to the coalition candidate, Mike du Toit. Bruwer thanked du Toit for a clean fight and they became friends.[520]

As a result of his political experiences, Bruwer came up with a proposal to deal with the problems of party politics, and stressed the importance of a sectoral focus. He proposed that representation on a "Central (governing) Board" should be by delegates of particular economic sectors, and their trade unions or guilds: "Under such a system farmers will be represented by farmers, mineworkers by mineworkers, railways workers by railways workers, teachers by teachers, industrial workers by industrial workers, doctors by doctors, etc" (Bruwer; 1934: 175).

"If the productive sectors organise themselves into cooperatives or syndicates, then the state does not need to get involved in coordination or issues of efficiency. The state can limit itself to being the policemen on dumping, and other factors effecting the sale price of goods" (Bruwer; 1934: 190). But his own political career had come to an end. Bruwer sold his house in Pretoria and started a newspaper, *Agriculture and Industry*. He managed to "struggle alone

[518]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 38 - 39 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[519]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 38 - 39 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[520]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 39 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

with his newspaper and raise his children."[521] The last political speech that he gave was in the Transvaal, which was covered by the *Star* on 13 June 1935.[522]

9.5. Bruwer and the establishment of State-owned industry

Arguably Bruwer's greatest weakness was his own ego, particularly when it manifested itself in his sense that he was entitled to be in charge of any economic project of the government of South Africa that took his fancy, and his expectation that others involved in these projects should submit to his authority. An example of this Achilles heel was his relationship with Dr H J van der Bijl, and by extension Dr H J van Eck. Both of these civil servants were probably the most powerful and ardent advocates of state-supported industry in South Africa.

In "Twentieth century South Africa- A Development History" Bill Freund notes that Hendrik Johannes van der Bijl "was a remarkable man whose career has struck a number of academic observers although it can be argued that his importance in shaping modern South Africa has been neglected (Freund; 2019: 69). Van der Bijl obtained a Ph.D. in Physics from Leipzig University, and was then persuaded by the Nobel Prize winner in Physics, Robert Milliken, to move to New York (van der Bijl's wife was American) and work for Bell Laboratories (Freund; 2019: 69). Van der Bijl was next persuaded by his friend, Jan Smuts, to return to South Africa "initially to rather frustrating beginnings under the pre-1924 government and thereafter where he became the key champion of state intervention on behalf of industrialisation" (Freund; 2019:69).

Van der Bijl in turn invited Dr H. J. van Eck to return to South Africa to work for ESCOM, the Electricity Supply Commission of the government, which van der Bijl was then heading. Van Eck, born in Kimberley, obtained a Ph.D. in Chemistry from Charlottenburg, Germany (A P Cartwright 1960 in Standard Encyclopaedia of Southern Africa, Vol II, page 146). "The core activists around van der Bijl, … represented just the kind of small, personally close, elite circle that developmental state theory claims is critical. Fredrik Meyer, with a background in steel,

[521]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 71 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[522]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 72 of Deel I 'n PaarGedagtesvan OutobiografieseAard30 January 1980.

and a German doctorate, and H. J. van Eck, perhaps van der Bijl's chief lieutenant" (Freund; 2019: 70) were members of this group. Freund (2019) is the only scholar that I am aware of who has addressed Bruwer's work on industrialisation, protection and monetary policy in any meaningful way.[523]

Bruwer described how he was involved in the early deliberations on the establishment of a state-owned steel manufacturing company in South Africa, which later became Iscor. This was at the time when he enjoyed the confidence of Beyers, then Minister of Mines and Industry, the Minister to whom he reported,.

> In Pretoria at the beginning of 1925, I met one of the pioneers of our Iron and Steel Industry Cor Delfos. There were plans to establish an Iron works in Pretoria West, but there was a shortfall in capital. … Smuts helped commence the research in Europe and a Dutch engineer was appointed to write a report about the possibility of establishing a steelworks at Pretoria. Just before this report was concluded, Delfos as Managing Director of the South African Iron and Steel Corporation Ltd, asked me what my recommendations were regarding the establishment of a large-scale steel works in the Union. I was so engrossed in the tariff battles that I did not have the time to apply my mind to the Steel issues. But I did not hesitate for a moment, with all my other work and opportunities, I pledged to get involved. Steel, for the government, is the very foundation of a country's development, and it was a function of the Board of Trade and Industry to advise the government about the development of the country.[524]

Bruwer assisted Beyers to oppose the usual laissez-faire, pro-British arguments of sections of the South African Party in the Parliament. Bruwer described the opposition to national industrial development, of which Iscor was a part, as coming from:

[523] See Freund (2019: 33-34 & 37).

[524] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, pages 79 - 80 untitled, but dealing with policy.

> The type of man who drives (in the back of) an American motorcar, which sports a Union Jack that was imported from Japan, and quite possibly with a Cuban cigar in his mouth that he bought from the profits that he made on Belgian steel.[525]

In the Senate there were the usual charges of "Bolshevism", and Bruwer advised Beyers to point out that if the SAP wanted to talk of Bolshevism, they should consider the monopoly right to print money that they gave to the newly founded SARB in 1921, a right that it took the Bank of England over two hundred years to achieve.[526]

Bruwer had a hand in drafting the legislation that brought Iscor into existence on 1 August 1928. The protection of Iscor through tariffs was opposed by Havenga, who told Bruwer that "if you are relying on protection for the Iron and Steel industry, you can give up on your plans".[527] Bruwer displayed an ugly sense of entitlement, and thought he should be in charge of every project in which he felt an interest. This attitude did not sit well with Dr Hendrick van der Bijl, the man chiefly responsible for the establishment and running of Iscor. Bruwer, who at this stage enjoyed the protection of his Minister, described his first encounter with van der Bijl, the man destined to be Iscor's first Chairman. "I had not talked to Dr van der Bijl before he visited me in my office, and started to lecture me in the most cheeky manner about what we should, and should not do."[528] When van der Bijl was appointed Chairman of Iscor, he made it clear to the government that he did not want Bruwer on the Board of Directors. Bruwer explained that this was:

> according to him [van der Bijl], because of the clash he had with me as Chairman of the Board of Trade and Industry. The real reason was that he did not want on the board

[525]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 107 of Deel IV My Deelname aan die Politiek.

[526]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 108 of Deel IV My Deelname aan die Politiek.

[527]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 113 of Deel IV My Deelname aan die Politiek.

[528]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 110 of Deel IV My Deelname aan die Politiek.

> someone who had direct contact with the responsible Minister. It was uncomfortable for an autocratic person such as Hendrik Johannes van der Bijl, who was used to doing as he pleased, without Ministerial interference.[529]

Bruwer wrote this opinion of van der Bijl long after van der Bijl had proved to be the most successful captain of state-led industrialisation. Bruwer's inability to treat his rival with respect says more about Bruwer than it does about Van der Bijl. Beyers appointed Bruwer to the board of Iscor, against the wishes of van der Bijl. Given the interference that Bruwer suffered from the Minister of Finance in the execution of his work, it is difficult to agree with Bruwer's approach. It seems to be another example of the sense of entitlement that may have come from being the eldest son of a wealthy farmer. Van der Bijl later offered Bruwer the Chairmanship of Union Steel Corporation at a third of the salary of the previous Chairman, in what Bruwer understood to be an attempt to remove him from the board of Iscor. Bruwer declined this offer, and lived to regret it, after the effectiveness of the whispering campaign against him became apparent,[530] and he was pushed out of the civil service. The Industrial Development Corporation (IDC) was created in 1940 in order to assist new business activities and expand existing ones. Van der Bijl was its first Chairman, who took advantage of the "possibilities for a state oriented to large-scale qualitative economic development" (Freund 2019: 64). At the foundation of the IDC, van der Bijl ended Bruwer's exile from the state by inviting him to be an economic adviser to the IDC.

9.6. Bruwer's Complex relationship with Jan Christian Smuts

Bruwer's relationship with Smuts was complex, when viewed over time. Through the 1920s, Bruwer was opposed to Smuts's monetary and industrial policy. The fact that the formation of the SARB was the brainchild of the arch-imperialist, Sir Henry Strakosch, in close co-operation with Montagu Norman, the Governor of the Bank of England, made Bruwer its bitterest opponent. Probably the best evidence to support the claim that Strakosch was an arch-imperialist, came at the end of 1936, when Edward VIII abdicated to marry Wallis Simpson,

[529]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 111 of Deel IV My Deelname aan die Politiek.

[530]A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 198 of Deel IV My Deelname aan die Politiek.

and Strakosch thought that the Empire needed a boost. To this end, he donated £250 000 for an educational fund, to support three full-time lecturers and 5 scholarships in the UK, that would promote the British Empire. Strakosch also paid some of Churchill's bills (Bordiss 2014). On 14 December 1936, he wrote to the Prime Minister, Stanley Baldwin, about his plan, noting that, "If fascism and communism can raise enthusiasm for their questionable doctrines how much easier it must be for us to create real enthusiasm for our doctrine of Empire".[531] Bruwer's instincts about Strakosch's imperialism were well-founded, and because of them he fought the Currency and Banking Act of 1920, which Strakosch drafted and Smuts approved. Bruwer also opposed British imperial preference in tariff policy, another cornerstone of Smuts's general belief that the closer South Africa was aligned with Britain, the better. Bruwer was one of the most vociferous opponents of this enabling of imperialism, and one of the most articulate advocates of an alternative – national development. Nonetheless, Smuts found himself on the same side of Bruwer on the question of devaluation in 1932. Both Bruwer's opponents, Havenga, and Hertzog were Smuts's chosen partners in the United Party from 1933 until 1939. When the United Party was formed, the independent MP, Dr Steenkamp, wrote to Smuts to ask him to give Bruwer his job back, as Chairman of the Board of Trade and Industry. Smuts wrote back on 9 November 1933. "I am on the lookout for something for him, but you know how difficult it is with this legion of applicants."[532]

Although Bruwer met with Smuts on 16 October 1933, to talk about Bruwer's anti-political party "group system",[533] Smuts was not prepared to antagonize Hertzog by bringing Bruwer back into the civil service, despite being "very sympathetic" to Bruwer. Bruwer tried to reconcile with Hertzog in October 1933, and again in October 1935, but Hertzog responded to Bruwer that he had "nothing against you [Bruwer], but you should not have done what you did."[534] Bruwer sent Smuts a telegram on 5 September 1939, when Smuts had become Prime

[531] Dominion Office files, Kew, London, DO 121/40 letter from Strakosch to Baldwin dated 14 December 1936.

[532] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr A. J. Bruwer, page 50 of Deel II Kontak met Persone,.

[533] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 51 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980,.

[534] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, pages 342 of Deel IV My Deelname aan die Politiek.

Minister, congratulating him and "offering him his [Bruwer's] services". In the telegram, he reminded Smuts that he had supported Smuts's gold standard position in 1932,[535] but still no government position was forthcoming.

In 1939, Bruwer took over the publication *Trek*, which developed a strong position against the Nazis and in favour of the war effort. On 12 June 1940, Smuts wrote to Bruwer, congratulating the publication on its fourth anniversary and thanking Bruwer for his anti-Nazi and pro-War position which he published in *Trek*.[536] Bruwer later sold *Trek* for £1000 to Jacques Malan at a time when John Martin was suing the publication for £10 000.[537] Bruwer did not mention the details of the legal action but my research in the Montagu Norman Papers at the Bank of England revealed that Martin was a director of a South African mining company who had never failed to advance British interests in South Africa. For this, he was finally rewarded with a Directorship of the Bank of England (Sayers; 1976, Vol 2: 599-600). *The Natal Witness*, on reporting the sale, noted that Malan was a well-known journalist and Socialist, and that Miss Rabkin was writing for the publication.[538]

The victimisation of Bruwer continued in the late 1930s. Bruwer's children were bullied at school, until he took them out of Afrikaans schools and put them into English ones. His eldest son, who was an outstanding scholar, was not on the list to write matric. "The excuse was that he was not good enough to write".[539]

[535] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 76 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[536] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 80 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[537] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, pages 83 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[538] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page 84 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

[539] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr A. J. Bruwer, page 342 of Deel IV My Deelname aan die Politiek.

Bruwer concluded this section of his memoirs with a summary of the policy issues that drove him to clash with the government, a clash that had cost him dearly:

> My fight with Havenga and his Milner men was based on a firm conviction that their policy was not in the interests of South Africa. They were:
> - British Imperial Preference
> - The Reserve Bank policy of Clegg
> - Havenga's gold standard policy.[540]

9.7. Bruwer's reflections on the history of economic thought

In his foreword to *Capitalism, Party Politics and Poverty*, Bruwer (1934) set out the criticisms that Friedrich List had made of Adam Smith and the other laissez-faire economists, which would form the foundation of Bruwer's approach to economics. Bruwer started his discussion of List (1841) by accusing Adam Smith (1776) of being "hopelessly misleading for leaders in the practical world" (Bruwer; 1934 ix). Bruwer quoted from Chapter 31 of Book III of List's *National System of Political Economy* (1841), which criticised

> "Adam Smith's doctrine … it ignores the very nature of nationalities, seeks almost entirely to exclude politics and the power of the State, presupposes the existence of a state of perpetual peace and of universal union, underrates the value of a national manufacturing power, and the means of obtaining it, and demands absolute freedom of trade (List; 1841: Book III, Chapter 31, page 25).

That one sentence by List summed up the forces that Bruwer had to contend with, and which finally reduced him to writing his book, "in poverty and alone". Bruwer had fallen foul of "the power of the State", a state eager not to make too many waves for Britain or its servants in the South African Treasury. Bruwer's main purpose at the Board of Trade and Industry was to impress upon the legislature "the value of a national manufacturing power", and not to be distracted by British "demands [for] absolute freedom of trade".

[540] A. J. Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Third batch of the memoirs of Dr A. J. Bruwer, page 98 of Deel I 'n Paar Gedagtes van Outobiografiese Aard 30 January 1980.

List's criticism that Smith's analysis was ahistorical also rang true for Bruwer: "It is impossible for me to discuss the economy from any standpoint, that is not historical" (Bruwer; 1934: ix).

> Adam Smith fell into these fundamental errors … by regarding absolute freedom ininternational trade as an axiom assent to which is demanded by common sense, and by not investigating to the bottom how far history supports this idea (List; 1841: Book III, Chapter 31, page 25).

Here, the views of List (1841) and Bruwer (1934) were virtually interchangeable. Equally, Bruwer and List shared a criticism of individualistic materialism. List (1841) just before the section quoted by Bruwer (1934) mocked the laissez-faire theory:

> This entire nullification of nationality and of State power, this exaltation of individualism to the position of author of all effective power, could be made plausible only by making the main object of investigation to be not the power which effects, but the thing affected, namely material wealth …. Materialism must come to the aid of individualism, in order to conceal what an enormous amount of power accrues to individuals from nationality, from national unity, and from the national confederation powers. A bare theory of value must be made to pass current as national economy, because individuals alone produce values, and the State, incapable of creating values, must limit its operations to calling into activity, protecting, and promoting the productive powers of the individuals (List; 1841: Book III, Chapter 31, page 27).

Bruwer commented that "Individual imperialists built a framework, using connections, for their own profits and bent everyone to their will" (Bruwer, 1934: 40). Bruwer quoted, "Confucian wisdom that the more the devil has, the more he wants. Capitalism leads to high suicide rates, robbery, burglary and slavery" (Bruwer; 1934: 43)[541].

In his introduction, Bruwer quoted List (1841) regarding Adam Smith's theory:

[541] Like Bruwer, List's life was far from easy. Like Serra, he was imprisoned as a young man, lost his fortune later in life, and committed suicide. (see Palgrave Dictionary of Economics 1987, Vol 3: 217)

> The mistake has been simply, that this system at bottom is nothing else than a system of the private economy of all individual persons in a country, or of the individuals of the whole human race, as that economy would develop and shape itself, under a state of things in which there were no distinct nations, nationalities, or national interests – no distinctive political constitutions or degrees of civilisation – no wars or national animosities; that it is nothing more than a theory of values; a mere shopkeepers' or individual merchant's theory – not a scientific doctrine, showing how the productive powers of an entire nation can be called into existence, increased, maintained, and preserved – for the special benefit of its civilisation, welfare, might, continuance, and independence (List; 1841: Book III, Chapter 31, page 28).

Anyone acquainted with Bruwer's writings on economics might have thought that this passage from List was written by Bruwer, it so closely matched his own thought. Not only was Bruwer aware of anti-laissez-faire writers after Adam Smith, he was also free of the common error of thinking that Economics started with Smith. Bruwer went on to set out how, following Aristotle, the church held production by a homestead as superior to the selfishness of making profit and accumulating great wealth. "Montesquieu complained about the growth of the cities and the expenses of the rural areas. … Aquinas took Aristotle's lead" in his approach to economics. But "whereas in Ancient Greece merchants where frowned upon, in South Africa there is a special fast train for them" (Bruwer; 1934: 2-3). The reason that "people did not think much of merchants, [was] because merchants don't *produce* anything" (Bruwer; 1934: 3) (italics mine). Bruwer thought that Plato was the "moral high point" of statecraft. (Bruwer; 1934:4), and claimed that Plato was against inequality and the making of loans: "The State must be self-sustaining, and interest is banned in Plato's *Republic*" (Bruwer; 1934: 5). "The greatest good is the good of the State, money making is unnatural because it leads to decadence" (Bruwer; 1934: 6). Bruwer claimed that "Aquinas was in favour of gold accumulation by the State for the purpose of defence" (Bruwer; 1934: 9), and then went on to recommend the reading of Thomas Mun's *England's Treasure by Forraign Trade* and three German-speaking mercantilists (Bruwer; 1934: 9), and to summarise mercantilist arguments. Bruwer noted disapprovingly that "around 1500 [AD] religious checks upon wealth were weakened and money making became more acceptable" (Bruwer; 1934: 11). Smith was treated less harshly because "Adam Smith's faith in laissez-faire is based on his faith in the basic goodness of people, the opposite of Hobbes" (Bruwer; 1934: 13). But, like Keynes, Bruwer was unimpressed with Jeremy Bentham's utility calculation. "Benthamite calculation leads to

the sweeping aside of questions of morality in economics. … 'Don't dream' says Bentham in his *Deontology* 'that a person would move his pinkie finger to do something for you, unless it is clear to him that there is some personal advantage in it for him'" (Bruwer; 1934: 15). Bruwer spoke disparagingly of David Ricardo, "a Dutch Jew, who, like his father, made a fortune on the London Stock Exchange", and particularly of Ricardo's views on how wages were determined by demand and supply, and that he thought that the only way to maintain wages was by having fewer children, and hence limiting the supply of workers (Bruwer; 1934: 15).

Bruwer pointed out that the "belief in free markets was not absolute in the 19th century, … both List and [Henry Charles] Carey fought it. … laissez-faire – the naïve belief in natural law working everything out based on individualism relied on deduction, … was beaten by a school of economics which relied on inductive actions, namely the historical school" (Bruwer; 1934: 17). Its success was based on a focus on the company, not the individual (Bruwer; 1934: 18). Bruwer paraphrased Karl Marx, saying that "the economic determines the social, and the social determines the moral" and "A different economic organisation may totally shift the moral views of humanity" (Bruwer; 1934: 19). Bruwer's argument followed the line of the catholic distributionist writers that a socialist company, that does not require individualism and selfishness, might encourage more sociable and moral personalities.

Bruwer ended his first chapter by lamenting that the "Ricardian school of economics and human nature was so rooted in selfishness that there was no hope left over for the Masses of the people" (Bruwer; 1934: 24). He explained why he focused on the history of the capitalist era that produced this Ricardian school, and the utilitarianism and marginal analysis that were based on it, to show how South Africa had got itself into the mess of the 1930s (Bruwer; 1934: 25).

Having discussed how selfish individualism, through laissez-faire capitalism, resulted in the situation that the world was in in 1934, Bruwer set out "Economic, Political and Church Rescue Remedies" (Bruwer; 1934:94 – 167). Bruwer discussed the dearth of effective demand at the time of writing, and actually used the term[542] (Bruwer; 1934: 96). He went on to quote liberally from Keynes's *Treatise on Money Volume II* (1930) on the subject of over-saving and under-investment (Bruwer; 1934: 97 -98). Bruwer agreed with Keynes in *The Treatise, Vol II* (1930)

[542] "Effektiewe aanvraag" (Bruwer; 1934: 96)

that a Supranational Body was required to manage the chaos in international money markets. He explained that, by this, Keynes meant a Conference of Central Bankers (Bruwer; 1934: 103). Bruwer suggested that the only way that a gold standard might work in the long run would be if the gold price were determined relative to the index price of a list of other frequently used items. Bruwer referenced Keynes as the originator of this idea (Keynes's memorandum on Production and Trade 1923 to 1928-29, pages 391-394, [presumably from the *Treatise*]), even though it had been first raised in the 20th century by Fisher (1911), then fully developed by him in *Stabilizing the Dollar* (1920), and then discussed further by Keynes in the *Tract* (1923). This was the idea that Holloway raised tentatively before the Select Committee in 1932, that Bruwer put to Keynes in February 1944, and that was later taken up by Holloway at Bretton Woods in June 1944.

Bruwer praised France, Belgium and Italy for "sacrificing their creditors on the altar of national progress" by abandoning the gold standard relatively early (Bruwer 1934: 106). In order to see if he had the support of his mentor, Bruwer wrote to Keynes after the September 1931 sterling crisis, to ask him whether Britain would return to the gold standard. Keynes wrote back in August 1932 that "England, in the foreseeable future will not return to the gold standard, not even at a devalued parity" (Bruwer; 1934:108). Bruwer recognised that, in a depression, the right approach was to increase spending, and he acknowledged John Maynard Keynes as the originator of this idea at the time[543] (Bruwer; 1934:133). Unlike Keynes's critics from the right, Bruwer understood that consumption spending by itself would not end the depression. With depressed wages and high unemployment, consumption spending would not be able to boost demand, and therefore the State needed to plan its public works programme in such a way so as to absorb the unemployment from the private sector in times of depression (Bruwer; 1934: 134).

His solution was for the government to focus its attention by sector. Sectors should be organised and represented by people from that sector. There should be central marketing organisations set up for each sector. Where it was not practical for businesses to operate on a small scale, cooperatives should be set up in order to benefit from economies of scale. "State effort at assisting cooperative endeavour has been neither fish nor fowl. We need a massive

[543] Although Bruwer does not quote from any specific work of Keynes, Keynes' Treasury Papers show that Bruwer and Keynes corresponded at the time of the Sterling Crisis in September of 1931.

commitment to cooperative endeavour in production" (Bruwer; 1934: 189). Bruwer was interesting in his criticism of Protestant economic thought, which had emerged simultaneously with capitalism. He referenced Aristotle and Aquinas, and his thoughts were very much in line with their thinking, as well as that of Pope Leo XIII, in *Rerum Novarum* (1891), and G. K. Chesterton, in *The Outline of Sanity* (1926), although he did not reference them specifically. Bruwer's 1934 economic thinking agreed with Catholic economic thought, known as Distributism.

In his chapter on Remedies available from the church, Bruwer pointed out that "in the 20th century the worship of God has been replaced with service to humanity. Theology has been replaced with Anthropology. … Christendom cannot live in a world of selfishness, greed, violence and intolerance" (Bruwer; 1934: 162-163). Although Bruwer thought that the church had a meaningful role to play in the body politic, to ensure that the focus was not entirely on the material, he was critical of the Calvinism of his own people. He noted, with disapproval, "Calvin was a big supporter [of the payment of] interest" (Bruwer; 1934: 165), and concluded that, "[w]e must suspend our Calvinist tendency to blame everything on ourselves, and look at the system. Farmers are paying interest on £100 million [of loans]. Calvin approved of the charging of interest, where the Roman Church banned interest" (Bruwer; 1934: 166). For Bruwer, this was the disruptor in the economic system: "credit is not tailored to the needs of production and distribution. … And why is this? Because the granting of credit is a private business" (Bruwer; 1934: 190).

> The boom and bust nature of private credit creation in the banking system is left to its own devices, until we are faced with a great depression. Then the Prime Minister warns us in 1929, just as the SARB pushes their interest rates up, that we are in a depression. Mr Clegg tells us 'the country must take its medicine'. And why was the medicine necessary? To return to normal (we are told). But what is normal? No one can say. But the people responsible for this 'back to normal' policy keep their positions while their political wrestling causes misery. The bitter pill had to be taken by the worker and the farmer. … So we have times of good luck and then misery, because there is no planning around production, and the volume of credit is not determined by the needs of the economy, but by the gold reserves (Bruwer; 1934: 192).

Bruwer proposed a gold-backed international currency for international transactions, but a separate currency for the local economy. He suggested a "Springbok" for the domestic economy, so that national internal money supply could be managed to suit the needs of the national economy. (Bruwer; 1934: 196). In his concern with the disruptive effects of the international gold standard, and his desire to focus on the national full employment of resources, Bruwer (1934) shared a paradigm with the Keynes of the *Tract* (1923).

Bruwer's support of the war effort, as editor of *Trek*, was probably a factor in his inclusion, in a junior capacity, in the economics team of the South African government during WII. This inclusion, the last role that he would play in South African monetary policy in his life, is the subject of the next chapter, where Bruwer makes a brief, but important, appearance. But although he played only a small role in person, the ideas he advocated in the 1920s and early 30s would be fulfilled in policy overseen by others.

9.8. Summary and Conclusion

Although Bruwer's political fall dealt his career a devastating blow from which it took him 22 years to recover, it produced an intellectual flourishing, particularly in *Capitalism, Party Politics and Poverty* (1934). Bruwer flirted briefly with both Nazism and Stalinism and he was acquainted with the writings of Plato, Aristotle, Aquinas, Mun and other mercantilists, List, and Keynes. His ability to draw on and quote from these writings is particularly important for heterodox economists, who, if they are unable to educate their orthodox colleagues about the intellectually rich heritage of development money thought, are often dismissed as populist mavericks. Sadly, Bruwer's intellectual flourishing came early in his banishment, and he was never to reach this level of sophistication in his economic thought again.

At this stage, Holloway's economic thought was only beginning to come into its own. His intellectual high point would be his summarising article after the Bretton Woods Conference, dealt with towards the end of the next chapter. Keynes would say of it, "I don't think I have read anywhere a more lucid or accurate statement in so short a space."[544]

[544] National Archive, Kew, London, Britain, T247/112/272/109, letter from Keynes to Holloway dated 27 March 1945.

CHAPTER TEN: THE ROAD TO BRETTON WOODS

10.1. Introduction

By the time that Holloway and his team got to Bretton Woods in June 1944, he had richly deserved that game of golf, which had the added benefit of keeping him and de Kock away from the Commonwealth meeting designed to present a united British Empire position. As Secretary of the Treasury, he had pushed to recover as much of the costs of the war out of current revenue as possible. He oversaw rental collections and tax revenue from a South African gold mining industry that was considerably more profitable than the one that had benefited the British government, through the Bank of England, during the last world war. Industry continued to develop in South Africa. Holloway's negotiations in mid-1943, with Keynes in London and with White and Bernstein in Washington, had stressed the two South African conditions for participation in the new international system: that gold producers would be free to sell their gold to the highest bidder, and that there would be a mechanism by which the gold price could be adjusted within this new system.

This variable gold price clause was already in the draft agreement discussed in London by the then South African representatives, Dr Steyn and Dr van Eck in February 1944. Holloway was complimented for his excellent work in promoting these ideas at the conference, which he did in a speech to Commission One, dealing with the Fund. When Keynes read the speech three days later, he praised Holloway and met with him privately. After the Bretton Woods Conference, Keynes also wrote to Holloway to express his approval of his summary set out in the SAJE article. (Holloway; 1944). But no sooner was the ink dry on the agreements, and the Bretton Woods plan approved by the necessary democratic bodies in Washington and London, than the Americans and British declined to vote for an increase in the gold price. Neither of them were major gold producers, and it was simply not in their national interest to do so. The US Secretary of the Treasury even tried to police South African gold sales. This chapter looks at Holloway and, via his correspondence with Keynes, Bruwer as they appear on the world monetary policy-making stage.

10.2. The 1943 negotiations

"Like their US counterparts, British officials began in the second half of 1942 to consult with other countries about post-war international financial plans" (Helleiner; 2014: 243). Britain engaged with South Africa, as well as Canada, Australia, New Zealand, and India (Steil; 2013: 164). Smuts set the tone in February 1943, stating that with regard to these proposed international monetary negotiations he "will be mainly influenced by the consideration – which plan seems to offer the more secure future for gold?" (Steil; 2013: 165, quoting from Keynes's *Collected Works* Vol XXV, 26 February 1943).

Holloway recorded that "I was sent overseas to take part in international discussions on post-war monetary re-construction. In 1943 I had discussions with Lord Keynes in London and Harry Dexter White in Washington on what ultimately became the Bretton Woods set-up."[545] White's diaries confirm that there were four meetings with Holloway over three days, on the 19th, 21st, and 22nd of July 1943.[546] Just before these meetings, from 15 until 17 June 1943, there had been an "informal conference held at the (US) Treasury,"[547] chaired by White as head of a twenty-six person US delegation and also attended by an eleven-man British delegation led by Keynes, with Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, Greece, India, Mexico, the Netherlands, Norway, and the USSR also represented. Once again, the South African government had avoided this platform for collective decision-making.[548] The US Treasury sent Holloway, Secretary of Finance for South Africa, their *Draft*

[545] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, PV515, File 4-2-1, page 6.

[546] Harry Dexter White Papers, Seeley Mudd Library, Princeton University, MC140, Box 13, Appointments of Harry Dexter White.

[547] The US Treasury Papers, National Archive, College Park, Maryland, Box 13, File D1, Material submitted by experts of various governments at informal conference held in treasury 15 – 17 June 1943.

[548] The US Treasury Papers, National Archive, College Park, Maryland, Box 13, File D1, Material submitted by experts of various governments at informal conference held in treasury 15 – 17 June 1943.

Outline of a Proposal for a United Nations Bank for Reconstruction and Development in November 1943.[549]

But while Keynes, who favoured state-led finance, was worrying about the Fund being too small, the American Banker Association (ABA), fearing that their monopoly of international lending was to be challenged, worried about it being too big. A delegation from the ABA met White on 8 June 1944; its leader, Randolph Burgess, wrote to White the following day: "The very size of the fund is an invitation to over-expansion. We also still believe that the provisions for the use of the fund are so drawn as to create the impression that countries have a right to borrow within the limits of their quotas, without much question as to the use of the funds and capacity for repayment."[550]

Most of the British delegation went across to the US for the Bretton Woods Conference, sailing on the *Queen Mary* on 16 June 1944, together with the Belgian, Chinese, Czech, Dutch, Greek, Norwegian, Polish, Indian and other delegates, arriving in time to attend the pre-conference negotiations at Atlantic City (Conway; 2014: 165-180).

One of the most important documents discovered in the Holloway Archive for Contemporary Affairs, at the University of the Free State in Bloemfontein, is a nineteen-page, handwritten report by Holloway to the South African government on his negotiations with Keynes in London and White and Bernstein in Washington. It is broken up into seventy-seven points, which Holloway believed were important, and shows not only his thorough grasp of the issues being negotiated, but also his political acumen.

Holloway explained that "I have avoided going into too much detail about the proposed mechanism of each scheme and confined myself to such points of detail as concern the principles which the government will have to accept or reject as it decides. … A great deal will

[549] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 25,*Draft Outline of a Proposal for a United Nations Bank for Reconstruction and Development* sent to Holloway by US Treasury November 1943.

[550] The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 13, File D2. Letter from Burgess to White dated 9 June 1944.

fall into its proper place when the main principles have been decided."[551] Holloway then described how "in the gold standard days, countries lost gold when their payments to, exceeded their payments from, other countries. When the gap became too great to be bridged in this fashion they generally were able to do so by floating international loans." What Holloway failed to admit was that this global laissez-faire system had become inherently unstable, choosing instead the milder statement that "in the inter-war period this mitigating factor lost much of its importance owing largely to both political and economic instability."[552]

Holloway's explanation of the situation was that "[w]hen the breakdown of the international gold standard removed the disciplining force of gold movements, national currency became an instrument of policy." He went on to describe how Brazil had provided currency at different rates to different sectors of the Brazilian economy in order "to encourage particular types of export industry. The manner in which Brazil countered Empire preference … by use of this device is well-known in the Union, as also are the various types of German marks."[553] What Holloway did not mention was that the French had also abandoned the unrealistic policy of returning to pre-WWI parity with gold. A much-devalued French franc had encouraged exports, discouraged imports, and saved France from the much higher unemployment that cursed Britain up until September 1931.

Holloway set out three long-term aims for what became the Bretton Woods institutions: to solve foreign exchange problems, to solve the difficulties of long-term international loans, and to reduce the barriers to free trade. These long-term aims could only be addressed once two immediate problems had been solved, namely relief to war-torn areas and the unblocking of

[551] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 1.

[552] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 1a.

[553] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 1a. The South African Fruit Industry suffered from the unfair Brazilian dual currency system, as Brazilian fruit could be exported using a special purpose competitively weak currency.

blocked balances occasioned by the war.[554] Holloway expected both the Keynes and White plans to "envisage a treatment … of the problems of immediate post-war relief and of long-term international investment."[555] Both schemes therefore aimed at

> making available the credit balances on current accounts to meet for the time being the debit balances. Both hope in this manner to create working machinery which will give the weaker currencies time to adjust themselves in the better atmosphere of free international trade and international long term lending which means it is anticipated the world would employ to avoid another war at the end of a generation … It stands to reason however that as in present conditions, the weaker currencies will require a long time to convalesce, and the stronger currencies will have to support them for a long time.[556]

> It is clear that the United States of America will for a long time be far and away the strongest creditor. It is also clear that Great Britain, which had thrown her most valuable foreign investments into the struggle with the axis, and holds large blocked foreign balances in sterling, will for a considerable time be in a weak foreign position.

Holloway reported that the British Treasury was aware that it would have to pay most attention to the American, rather than the British, plan, given the relative strengthen of the US: "I realised that the closest attention would have to be given to the American point of view."[557] Given the power of the US, and the isolationist tendency in its Congress, Holloway warned that "White of the US Treasury stated explicitly that the Treasury was not likely to go forward with any scheme unless acceptance by both the principal trading nations and Congress was initially

[554] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 2.

[555] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 2.

[556] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 3.

[557] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 3.

assumed. To launch a scheme which would be rejected would be worse than to launch no scheme." He thought that the aim would be to build up an "organisation with gold and foreign exchange",[558] unaware that the Americans had no intention of subjecting themselves to the interests of gold-producing countries, any more than the British had half a century earlier.

"It is therefore considered important by the USA that countries with strong currencies should come in at the outset. The whole scheme is one of the strong helping the weak. … South Africa on account of its gold mining is regarded as having a predominantly strong currency."[559] Holloway acknowledged that "the creditors cannot allow the debtors to prescribe to them in the matter of amount and terms of lending. But to incorporate this principle in a sufficiently elastic form in a document to be accepted by many nations, is not easy."[560] What Holloway did not yet appreciate was that when White talked about "international money", there was no intention of gold being central to the system. Had Holloway thoroughly read White and Bernstein's monetary thoughts prior to 1943, he would have realised that FDR's US negotiators had no intention of enthroning gold at the centre of the new system, and every intention of securing the dollar in this position (Bernstein; 1935: 90 and White; 1933: 303 and 306-312), admittedly in a more roundabout way.

Regarding the workings of what became the IMF, Holloway predicted, "with the access to credit under this system, some countries will get out of their difficulties, some will get deeper into difficulties with policies which can only be followed provided others pay, and the cause of the deterioration will mean that the board will be forced to intervene."[561] Most importantly, Holloway pointed out that exchange control had not yet been dealt with. "Lord Keynes was inclined to the view that exchange control, at least of capital movements, will be essential after

[558] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 4.

[559] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 5.

[560] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 5.

[561] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 6.

the war. He based this on the fact that, for purely fiscal reasons, Treasuries could not allow their rich men to escape to areas of lesser taxation. The sheep must stay in the pen to be shorn."[562] He supported this approach in his 1944 SAJE article.

"He [Keynes] concluded that large scale exceptions would be granted for current transactions in the same way as South Africa had done for its wartime exchange control. He also pointed out that the obligation was laid on members to refuse deposits of money held on account of foreign nationals."[563] Helleiner (1994) stressed the importance of policing capital flight, and its centrality to the stability of the Bretton Woods system in its early days. Holloway noted from his conversations with White that he, too, was in favour of capital controls after the war.

> White considered that creditor nations could manage without exchange control. Debtors might require it regularly, or to take care of a particular situation. He admitted on my question that to prevent capital movements going through under the guise of current trade it might be essential to maintain postal and cable censorship, which would be strongly resented in peace time by most peoples. He did not, however, consider it necessary to be too meticulous in preventing small amounts of capital from migrating. As to large amounts they would be known by the banking system and he also pointed to the obligations to refuse foreign 'funny' money.[564]

Holloway then discussed the difficulties of getting the relative exchange rates right. As this memorandum was written in 1943, he still talked about the exchange rates relative to the "Unitas"[565], with the Unitas valued at $35 per ounce of fine gold. Holloway thought that it

[562] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 6.

[563] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 7. Holloway's summary here supported Helleiner' s contention that White and Keynes were *ad idem* on the need for capital controls.

[564] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 7.

[565] Unitas was the US proposed name for the unit of account within new monetary system discussed in 1943. (Steil; 2013: 147-149)

would take many years before all members would find a comfortable exchange rate at which to fix it. "The main principle is that countries should not be allowed to depreciate at will. This involves some surrender of 'national sovereignty'. It is believed necessary, for the proper functioning of the stabilisation fund, that forces making for stability should be employed to constrain the forces making for instability."[566] Holloway found a marked difference in the opinions expressed publicly on the gold standard in the US and Britain. In the US the dominant public and private view, amongst those he spoke to, was that what was required was a "need for stability: so much so that a return to the gold standard and to balanced budgets on current accounts are necessary to bring the world back to soundness and monetary sanity, in spite of the hard discipline that this would undoubtably involve."[567] Those creditors for whom "discipline" is not necessary were remarkably eager to prescribe it for those debtors who would be disciplined. In Britain, "[t]he prevailing public view is that a country's foreign trade and economic life should never again be linked to the rigid discipline of gold, and that expansion should not be tied to the fortuitous rate of growth of the world's gold stocks."[568] "Lord Keynes with whom I discussed this matter, expressed the view that the gold standard would break down again if it was not" supported by a flexible international system, such as the one that he had proposed.[569]

Holloway worried about "the question of the desirability of having an international 'money of account'".[570] He quoted from a paper by a F. A. Lutz of Princeton University that "Up to this point we have neglected gold", and mused about the likelihood that both the Americans and

[566] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 8.

[567] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 8.

[568] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 8.

[569] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 9.

[570] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) pages 10.

the British were not properly committed to restoring the role of gold in the international system.[571]

> Both in England, and in the USA, I took and made various opportunities of discussing the schemes with men outside government circles. These consisted chiefly of bankers, as exchange questions are largely involved, and professional economists. I had no difficulty in making contact with some of the most prominent bankers in New York City during the three days I spent there. … I also met four of the Governors, including the President, Mr Marriner Eccles, and a number of the technical experts of the Federal Reserve Board at Washington. In non-official circles, particularly in New York, I found much scepticism about the schemes.[572]

Holloway noted that Keynes singled out two critics of the "schemes" whose views were "interesting, particularly from the point of view of South Africa", naming "Mr Winthrop Aldrich, Chairman of the Board of Directors of the Chase National Bank, and Professor B. M. Anderson, of the University of California and formerly chief economist to the Chase National Bank. These represent the most outspoken public expressions in favour of gold which I came across in the United States. In England equally strong … views were expressed to me privately ~~by two or three prominent men in financial circles.~~", Holloway noted.[573] Holloway was clearly attracted to these international bankers because of their commitment to the use of gold in the international monetary system. But he must have been equally aware that both Keynes and White were determined to design a system which did not have Wall Street bankers at the centre. He would no doubt need to have employed his considerable diplomatic skills in order not to be seen as an instrument of the bankers, despite the fact that he saw these bankers as allies in the advocacy for the gold standard.

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[571] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) pages 10 - 12.

[572] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 12-13.

[573] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 13. (the words were struck through in the original)

Holloway was realistic about the relative powerlessness of South Africa in what would become the Bretton Woods institutions. "The Union in entering the Fund would be in the position of a shareholder in a company in which the controlling interest is held by one shareholder. It is true that the interests of the small shareholders, of which the Union will be only one, are seldom likely to clash with those of the big shareholder."[574] Unfortunately, Holloway's optimism proved unfounded, as he was to discover by 1949 (see pages 295 - 299). Characteristically, Holloway deferred to his political superiors, "Participation for the Union, with its peculiar position in the world, is finally a question whether the scheme in the ultimate form is likely to produce more orderly and more peaceful international economic relations than those which marked the inter-war period"[575] (underlined in the original).

Both in his 1943 and his 1944 trips to the US, Holloway made sure to meet with Wall Street bankers. Holloway states that the most prominent of these bankers was Winthrop Aldrich, who, with W. Randolph Burgess, was most active in opposing the Bretton Woods institutions and their aim of usurping the role as international private financiers to governments. Holloway wrote to Aldrich, Chairman of The Chase National Bank, in November 1944, "It is because I find myself in agreement with so much that you say that I am presuming on the brief acquaintance with you which was made when, as your guest at the Bank in July 1943, I discussed the 'White plan' with you, to write to you."[576] Unlike Keynes, who decided to stay away from alternative negotiations with Wall Street bankers, and to take his chances with FDR's Treasury team at Bretton Woods, it seemed that the South Africans were hedging their bets. Keynes's moment of decision came after a telegram from the British Treasury Under-Secretary, Sir David Waley, to the British negotiating team – Keynes, Brand and Eady – on 16 May 1944, informing them of an offer to the British government from key New York bankers of "a large loan in return for abandonment of the proposed financial architecture schemes, which threatened to undermine their international lending business" (Steil; 2013:153). When

[574] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 18.

[575] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/I2/1 memorandum for South African government from Holloway after July 1943 (exact date unknown) page 18.

[576] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/B1/1 letter from Holloway to Aldrich dated 7 November 1944.

Waley urged Keynes to consider a Wall Street loan, as an alternative to the system being negotiated with White, Keynes responded that "the wise and prudent course is to run with the US Treasury rather than with its disgruntled critics … [The bankers] do not know their own mind and have no power whatsoever to implement their promises" (Steil; 2013: 189, quoting from the British Treasury Papers, a letter from Keynes to Waley, Brand and Eady, 16 May 1944). Keynes was forthright that Britain should take its chances with White, and the other FDR New Dealers, rather than rely again on Wall Street.

10.3. The February and March 1944 negotiations

Instead of sending the two most qualified economists in the civil service with particular experience in monetary policy to the meeting of Dominion delegations in London in February 1944, the South African Treasury sent Dr van Eck and Dr Steyn, two senior men from the IDC. The Dominion representatives were meeting Keynes ahead of the Bretton Woods Conference, in order that Britain could prepare a Commonwealth position which was as united as possible. What is intriguing is that most of the other countries who were at the meeting with the delegates, in February 1944, sent at least one of these representatives to Bretton Woods four months later. Only South Africa and Canada changed their representation at Bretton Woods completely[577] (Schuler & Rosenberg; 2012: 587-608).

As part of the South African Treasury's negotiations, Bruwer sent a letter dated 17 February 1944, to be delivered to Keynes. In it, he informed Keynes that "I have written a short chapter on Gold … for the Industrial Development Corporation. Dr H. J. van Eck, our Managing Director, suggested to me to forward a copy to you."[578] Keynes wrote back to Bruwer, "I am, of course, seeing van Eck almost every day over the present discussions."[579] It seems probable that Holloway and de Kock's absence from the London discussions with Keynes in

[577] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Article VII discussions with representatives of the Dominions and India 14 March 1944.*

[578] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41. In Keynes' Treasury File for South Africa, there is a letter from Bruwer to Keynes dated 17 February 1944.

[579] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 letter from Keynes to Bruwer dated 11 March 1944

February 1944 meant that they did not want to be boxed into a position that suited Britain more than it did South Africa.

Bruwer recognised that both Keynes's British plan and White's American one, wanted to promote international trade: "Nothing is more anathema to such an ideal than instability in the foreign exchanges, … international trade is adversely affected when there is no stability of contract."[580] Bruwer acknowledged that the British plan was "less emphatically" about "multilateralism in trade", because "Britain is not as sure of herself to-day as far as unqualified free trade is concerned as she was in 1846. … The American plan, on the other hand, is more emphatic on the removal of obstacles to international trade, because the United States of America is more sure of herself than when she was still building up her strength."[581]

Bruwer highlighted the rivalry for the dominance of international finance between New York and London. De Cecco (1985) echoes this point, "The inter-war period is perhaps the high-noon of politicized international finance. … the return to gold can be seen as an important British defeat in the open fight for international financial supremacy American financiers and politicians … engaged during and after the First World War" (de Cecco; 1985:49-50). Bruwer welcomed the fact that both the American and the British plans "advocated… controlling [international] capital transfers",[582] with the American plan focused on encouraging "the international flow of productive [as opposed to speculative] capital."[583]

[580] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 1.

[581] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 2.

[582] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 4.

[583] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 5.

Bruwer's report to Keynes got down to a South African position on page 9. The aspect of these plans that "affects South Africa is their attitude to the future of gold in world currency."[584] Unlike Holloway, Havenga, and Hertzog, Bruwer was not nostalgic for the gold-standard past. "If the gold standard … had been satisfactory, there would have been no Keynes or White plan for the purpose of securing stability of the exchanges. … Unfortunately, the gold standard was not as self-regulating as its protagonists thought it was, and led to a crippling dislocation of trade due to the fact that *it did not respond satisfactorily to national policies which became essential after the war!*" [585] Here, Bruwer echoed Keynes's message of the 1920s and 30s, that far from an equilibrating Price specie flow mechanism, "the result was a most disconcerting mal-distribution of gold with the inevitable consequences that some countries found themselves with hopelessly inadequate supplies of gold, while the United States had so much gold that she had actually to 'sterilise' gold inflows in order to avoid inflation."[586] This created a hostile environment in which competitive devaluation became the order of the day.

In contrast to the impossible rigidity of the interwar gold standard, Bruwer ended his analysis of the Keynes and White plans by echoing Holloway's 1932 idea - an idea already contained in the draft agreement that Steyn reported on,

> It is in this elasticity of the Keynes Plan that it is so much more far-seeing as regards the use of gold in international exchange machinery than the White Plan. Unless gold,

[584] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 9.

[585] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 9. Italics mine.

[586] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 9. "In practise the Federal Reserve Board often ignores the proportion of its gold reserve to its liabilities and is influenced, in determining its discount policy, by the object of maintaining stability in prices, trade and employment. Out of convention and conservatism it accepts gold. Out of prudence and understanding it buries it" (Keynes; 1923: 197).

> as an ultimate instrument of value or payment, is treated in an elastic way, its future utilisation by large tracts of the world might become impossible.[587]

Bruwer's "Conclusion" contained his proposal for the role that gold should play in the system. He started by saying that "gold seems to have lost its prestige value in a utilitarian world. … The more civilised human beings become, and the more equalitarian their economic and social standing becomes, the more the utilisation of gold as an ornament and a sign of prestige or greater wealth will disappear."[588] This was very much in line with the trajectory of Keynes's own thoughts on the subject, explored in Padayachee & Bordiss (2013) and set out by Keynes in *Economic Consequences for our Grandchildren* (Keynes 1930, printed in *Essays in Persuasion*). As Bruwer put it, "To nobody but the miser, that is, somebody with a warped mind, is the possession of gold coin in itself a source of delight."[589]

Having set out a case for moving away from "sound money", Bruwer then went in the opposite direction, following Holloway in using Cannan's (1920) metaphor. South Africa not being on the gold standard was like "the village shoemaker, who paraded his family barefoot (off the gold standard) through the streets to show what a bad thing it was to wear shoes!"[590] Central banks economising on the use of gold "has been disastrous, for it has led people to believe that paper is just as good as gold for the handling of a country's business."[591] After a brief detour down this "sound money" cul-de-sac, Bruwer found his "development money" path again: "The question, therefore, arises (and especially for a country like South Africa, which has

[587] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section II: Planning Post-War Exchange" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 13.

[588] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 1.

[589] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 2.

[590] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 3.

[591] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 3.

allowed its domestic economy to become so largely dependent upon gold): what are we to do to safeguard the future utilisation of gold on a (new) basis?"[592]

Bruwer understood that the gold reserve ratios, which had come into fashion in the 19th century, "must be discarded". He pointed out, as Keynes had noted before him, that this gold reserve policy acted pro-cyclically to fuel disequilibrium:

> At times when banks should use their cash reserves, they try to build them up; as a consequence, when business needs credit especially urgently, that credit is restricted in order to blame the 'inverted pyramid' – the credit superstructure [multiplier] based on gold – more securely. … the belief in convertibility of bank notes and deposits into gold has always been based on fiction. … All the power of propaganda and information should, moreover, be used to teach the public that a 'run' on a bank, to see if it can pay in gold … the claims against it, is , under modern banking practices, nothing less than an act of a feeble-minded person.[593]

Bruwer summed up his argument by saying that "If gold is to survive as a valuable monetary asset, its use will have to be made elastic."[594] He ended his letter to Keynes, "With all my gratitude to you for the intellectual guidance reaped from your writings over the course of many years."[595] Keynes replied warmly to Bruwer on 11 March 1944, saying, "I am entirely in agreement with the thesis in the first part of your paper, that the idea that a fixed ratio of gold should be kept against domestic issues of currency is a fiction which is now exhausted and out

[592] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 4.

[593] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 pages 5-6.

[594] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 Document entitled "Section III: Conclusion" attached to the letter from Bruwer to Keynes dated 17 February 1944 page 6. On the Currency and Banking School debates see Fetter (1965: 165-197).

[595] John Maynard Keynes Treasury Papers, Kew, London, T247/112/272/109, letter from Bruwer to Keynes dated 17 February 1944

of date."[596] Keynes ended his letter to Bruwer with the slightly warmer than usual "yours very truly" salutation.[597]

Holloway was behind the scenes, rather than physically present, in London in February and March of 1944, but he was as well informed and as "influential" as ever (Botha; 2002:17). Dr D. H. Steyn, of the IDC, who employed Bruwer as an advisor, sent to Holloway not only the minutes of the meetings held with the representatives of Britain, Canada, Australia, New Zealand, South Africa, India, and Southern Rhodesia (who, for some reason, seemed not to have secured an invitation to the Bretton Woods Conference) (Schuler & Rosenberg; 2012: 587-608), but also his opinions on these meetings. Of the ten pages of minutes, only half a page shows van Eck or Steyn speaking.[598] Supporting the theory that the South Africans were avoiding any commitment at this stage is the fact that van Eck spoke for the first time about halfway through the meeting, saying:

> That the views which he was expressing were personal [he was the only delegate to start his contribution in this way], but he felt the same difficulties as the others present in regards to the American proposals.[599]

Steyn's own "Secret" memorandum to Holloway ran to eleven pages. He reported that the drawing rights of South Africa was set at £150 million.[600] The British submission contained the proposal which allowed for a change in the price of gold in the international monetary

[596] John Maynard Keynes Treasury Papers, Kew, London WR254/1/41 letter from Keynes to Bruwer dated 11 March 1944 page 1.

[597] John Maynard Keynes Treasury Papers, National Archive, Kew, London, Britain, T247/112/272/109, letter from Keynes to Bruwer dated 11 March 1944.

[598] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Article VII discussions with representatives of the Dominions and India 14 March 1944*, page 5.

[599] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Article VII discussions with representatives of the Dominions and India 14 March 1944*, page 5.

[600] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Memorandum on International Monetary Discussions in London 23/2/44 – 21/3/44,* Authored by Dr D H Steyn, page 4.

system. Steyn appeared not to appreciate that this proposal was what Holloway had been pushing for:

> Another important provision in Clause 5 is that a uniform change in the gold value of currencies may be made by majority vote provided that all countries with 10% or more of the aggregate quotas must agree to the changes … This means that no change can be made without the consent of the United Kingdom or the United States.[601] … [Reporting on the clause to vary the price of gold, Steyn said] It is possible that this clause may not appeal to gold producing countries but it must be pointed out that it is against the spirit of the age to accept gold as the absolute master, instead of the servant, of international trade and world prosperity.[602]

He ended his Secret report by stating that "it is necessary for the government to decide whether they are prepared to subscribe to the principle outlined in the statement and to accept the obligations inherent in the scheme."[603] Steyn seemed to fear the highly unlikely scenario of a fall in the gold price, but ended on a positive note, "an agreed uniform change would undoubtedly have caused less international friction and would be more conducive to national and international prosperity."[604]

10.4. South African Finances in WWII

Bruwer raised two criticisms of the SARB in the 1920s and 30s, which were rectified during WWII. First, Bruwer criticised the SARB for keeping excess reserves at the Bank of England, robbing South Africa of development capital, and (secondly) he criticised the fact that South

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[601] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Memorandum on International Monetary Discussions in London 23/2/44 – 21/3/44,* Authored by Dr D H Steyn, page 7.

[602] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Memorandum on International Monetary Discussions in London 23/2/44 – 21/3/44,* Authored by Dr D. H. Steyn, page 7.

[603] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Memorandum on International Monetary Discussions in London 23/2/44 – 21/3/44,* Authored by Dr D. H. Steyn, page 11.

[604] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 12, *Memorandum on International Monetary Discussions in London 23/2/44 – 21/3/44,* Authored by Dr D. H. Steyn, page 8.

Africa was unable to take advantage of the substantial increase in the gold price during WWI, particularly in the United States and India, and was forced to sell its gold at the considerably lower "official price" in London.

By May 1937, White at the US Treasury was starting Memoranda with the heading "Gold: Should the world output be reduced? … How will United States gold holdings be affected by continued high world output? What can be done about it?"[605] Of course, White would not have been asking these questions if the US were a major producer of gold. The Memo noted the increase in world production from 19 180 000 ounces in 1927 to 34 910 000 ounces in 1936.[606] In explaining the huge increase in production, White noted that "the price of gold in terms of every currency in the world has increased"[607]. Mexico had the biggest increase in price in terms of the local currency, at 204%, with South Africa just ahead of the US and Britain at 70%, 69% and 68% respectively.[608] South African production went from $362 million, in 1928, to $396 million in 1936.[609] In a memo to Morgenthau in September 1937, White included much of the same material, adding that South African reserves of gold had increased by $50 million in the period 1928 to 1936. "In 1933 the South African government deliberately imposed a tax designed to encourage the lowering of the average grade of ore milled,"[610] pushing the Randlords to focus on the lower grade mines. "Capital for new mining ventures has been abundantly forthcoming. Twenty-nine mines now in operation and capable of producing 46 million tons of ore annually have spent +- £103 million since 1934 in building new shafts, plant

[605] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 1 #7, Memo dated 12 May 1937, page 1.

[606] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 1 #7, Memo dated 12 May 1937, page 1.

[607] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 1 #7, Memo dated 12 May 1937, page 1.

[608] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 1 #7, Memo dated 12 May 1937, page 2.

[609] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 1 #7, Memo dated 12 May 1937, page 12.

[610] The US Treasury Papers, National Archive, College Park, Maryland, R456, A1360P, Box 2, file 9, Memo dated 15 September 1937, page 12.

and equipment. Sixteen new mines are being developed at a capital expenditure since 1933 of £40 million."[611] This was not just a boon to the mine owners, as "[f]orty-five percent of the working profits of the Transvaal gold mines goes to the government … [which] derives about 40 per cent of its revenue from the taxation of the income of gold mines and from participation in the profit of leased mines."[612] What is interesting is that, by 1937, White was still confirming the 1902-1919 status quo that "practically the entire output of the Rand mines in South Africa (95.6%) is exported to England and sold in the London market."[613] According to the US Commercial Attaché in Pretoria, Clayton Lane, for March 1940, "Transvaal production [of gold] of 1 147 382 ounces, valued at £8 605 365, was a new record."[614]

Again, in a similar vein to the August 1914 agreement, there was "a new agreement with the Bank of England" and the South African government, that "[a]ll South African gold will be sold only to the Bank of England", once "the S A Reserve Bank" had bought "all the gold produced at the official price, … and the Union Treasury will take a profit estimated at £2 000 000 a year for the loan account."[615] This weaker British position with respect to South Africa in WWII is perhaps indicated by the fact that in WWI it took the Bank of England a month to secure all of the Transvaal gold, whereas in WWII it took over nine months, and the fact that the result was less onerous for South Africa.

In his new position in Whitehall, Keynes soon focused on South African finances. In January 1941, Keynes moved to new offices (Skidelsky; 2000: 82), at a time when Britain was financially exhausted. In response to Britain begging the Americans for money, FDR assumed

[611] The US State Department Papers, National Archive, College Park, Maryland, R456, A1360P, Box 2, file 9, Memo dated 15 September 1937, page 14.

[612] The US State Department Papers, National Archive, College Park, Maryland, R456, A1360P, Box 2, file 9, Memo dated 15 September 1937, page 15.

[613] The US State Department Papers, National Archive, College Park, Maryland, R456, A1360P, Box 2, file 9, Memo dated 15 September 1937, page 16.

[614] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a, Box 5120, report of Lane to State Department dated 15 June 1940.

[615] The US State Department Papers, National Archive, College Park, Maryland, RG59, 848a, Box 5120, report of Lane to State Department dated 15 June 1940.

that assets in the dominions belonged to Britain and could just be handed to the US in payment for war supplies. "Roosevelt 'helpfully' insisted, over Churchill's objection, on sending a cruiser to South Africa to ship to Washington £42 millions of gold held in South Africa" (Skidelsky; 2000: 102). But South Africa had learnt her lesson on the importance of financial sovereignty, as Keynes soon discovered.

In a 3 January 1941 memo to Lord Catto (Financial advisor to the Treasury and later Governor of the Bank of England), and Sir Richard Hopkins (Second Treasury Secretary, and later permanent secretary, who had brought Keynes into the WWII Treasury as advisor) (Skidelsky; 2000: 544 and 550 respectively) Keynes wrote –

> Has not the time come when we should move seriously to the assault in regard to our financial relations with South Africa? General Smuts gets on his high horse for a New Year's message, but behaves in practice as though he were quite sure we were going to be beaten and was quite determined not to be found owing any sterling in that event. … They no longer hold any material Sterling balances. But this state of affairs has been produced by them on purpose. Their present policy seems to be to sell us only so much of their current requirements. The rest they are hoarding in their own vaults. Some months ago they were furnishing us with the major part of their gold output. In the last three months for which I have figures, they have retained a third of it themselves and have increased their own gold holdings by £8,000,000 in those three months.[616]

Keynes had four complaints against South Africa: firstly that imperial preference was no longer working, and dollar imports had increased significantly, secondly, that the South African demand for dollars substantially exceeded the dollar imports, suggesting "a serious capital leakage", thirdly, that after a start of repatriation of sterling securities, further repatriation had not been forthcoming and, finally, that South Africa was holding the bare minimum of sterling balances, sending only enough gold to London to meet its sterling and dollar obligations.[617]

[616]National Archive, Kew, London, Britain, T247/112/272/109, memo from Keynes to Lord Catto and Sir R. Hopkins dated 3 January 1941.

[617] National Archive, Kew, London, Britain, T247/112/272/109, memo from Keynes to Lord Catto and Sir R. Hopkins dated 3 January 1941.

Eleven days after his first memo on the subject of South Africa avoiding financial sacrifices, Keynes sent a memo to Waley, worrying about British investors sending capital out of Britain to invest in South African gold mining companies. "If we do not want our investors to increase their holdings [of South African mining holding companies], it is for us to stop them."[618] In a March 1942 memo, Keynes said, "Mr Hofmeyr's policy seems aimed at making it as plain as possible to the world that their production of gold is serving no war purpose whatsoever. The growing accumulations in South Africa are certain to attract attention in the United States."[619]

Keynes then asked Henry Strakosch for advice,[620] and he visited Keynes at the Treasury on 21 January 1941. Strakosch explained that the London market was fearful of a devaluation of the British pound against the South African currency, and of the unusually large balances sitting in the SARB. Keynes recorded, in a further memo to Waley, that Strakosch had pointed out that "banker's deposits with the South African Reserve Bank have risen from £23,278,000 at September 1939 to £46,547,000 at 13 December 1940". [621] Strakosch said that South African mining companies "as a result of the war … transferred to U.S.A. a great many orders which [they] had previously been in the habit of placing in various European countries". [622] The Americans, said Strakosch, were attempting to pay for some of this gold by way of credits against American imports.[623]

The High Commissioner to South Africa, in a memo of 27 August 1942, further confirmed South Africa's excellent financial health. South Africa was meeting its defence expenditure of

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[620] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to Strakosch dated 16 January 1941.

[621] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to Waley dated 22 January 1941.

[622] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to Waley dated 22 January 1941.

[623] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to Waley dated 22 January 1941.

£80 million per year "from our own resources, not going to London for help".[624] Not only this, but South Africa had embarked on a programme of national development "for harbour works, housing, [and] industrial development", extra taxation, and a thrift campaign had kept inflation under control, and capital had been repatriated by the SARB from London. [625]

Aside from the financially prudent Holloway, the South African Treasury during WWII continued to have a fiscally conservative Finance Minister, Jannie Hofmeyr, who in 1932 was "a strong advocate of the retention of the Gold Standard."[626] Hofmeyr instructed Holloway to "prepare a report for him on anti-inflationary measures and in our discussions, frequently returned to this subject."[627] The Hofmeyr/Holloway team minimised inflation by taxing heavily, borrowing directly from the public rather than from commercial banks, recovering as much of the loans to farmers that were granted in the 1930s as was feasible , and by repatriating foreign loans to the State "thereby reducing the volume of money in the country."[628] By so doing, Hofmeyr largely succeeded in "defraying at least one-half of the cost of the war from current revenue."[629]

Holloway was a strict supporter of balanced budgets and the discipline necessary to achieve them. He preferred taxation to pay for the Second World War, rather than an increase in

[624] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/, Memorandum from The High Commissioner to South Africa to the Dominion Office dated 27 August 1942.

[625] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/, Memorandum from The High Commissioner to South Africa to the Dominion Office dated 27 August 1942.

[626] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 6/2/1 Article attached to Letter from Holloway to The Editor, The Star, dated 23 December 1954, page 1.

[627] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 6/2/1 Article attached to Letter from Holloway to The Editor, The Star, dated 23 December 1954, page 2.

[628] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 6/2/1 Article attached to Letter from Holloway to The Editor, The Star, dated 23 December 1954, page 3.

[629] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 6/2/1 Article attached to Letter from Holloway to The Editor, The Star, dated 23 December 1954, page 3.

debt.[630] He noted that, as the Secretary of Finance under Hofmeyr (when they were settling South Africa's lend-lease indebtedness and its purchase of American aircraft and military equipment left over in South Africa), "we paid the negotiated amount of $100 000 000.00 dollars in gold. We became one of the two countries which paid their lend-lease indebtedness in cash. This greatly strengthens South Africa's reputation for financial probity."[631] Piketty shows how financing WWI and WWII through higher levels of income taxation lowered levels of inequality (Piketty; 2014: 498-501), whereas the debt financing of the Napoleonic wars increased it (Piketty; 2014:540: 542). In this case, Holloway was on the side of the equality angels, "I must admit that if heavy wartime taxation was a crime I was as guilty as Hofmeyr."[632]

On 3 September 1942, Keynes again pushed for reducing the "too marked … discrepancy between the way in which South Africa and other dominions are interpreting their liabilities for defence."[633] On 22 October 1942, Keynes agreed with Professor D. Robinson that the British Treasury should push Smuts to accept a greater part of the financial burden of paying for the war.[634]

The British discussed with the Americans whether they could persuade the South African government to shift the South African mining priorities. The US Consulate General in South Africa wrote to the US State Department in April 1942 that:

> the basic policy of this government is to request the Union government to shift gold mining operations into base metal mining operation only to the extent that such a

[630] Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 4-2-1, pp. 38 – 78.

[631] Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 4-2-1, pp. 38 – 78.

[632] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, Radio RSA Foreign Service broadcast address by J. E. Holloway, December 1967, PV515, File 4-2-1, page 6.

[633] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to colleagues dated 3 September 1942.

[634] John Maynard Keynes Treasury Papers, Kew, London T 247/112/272/109 Memo from Keynes to colleagues dated 22 October 1942.

> transfer of activities is within political realities. It is fully recognized that the economy of the Union of South Africa has been in large part dependent upon the gold mining industry.[635]

The letter went on to mention that "the gold mining community through the South African government's representatives in the United States have used one argument after another to cover up their meagre war effort."[636] The British tried to bring the Americans into their scheme to acquire South African gold. On 9 October 1942, Mr Ellsworth and Mr Price of the British Embassy in Washington met with White and proposed

> a means of forcing the diversion of resources of the South African gold mining industry to the war effort. … Mr Price reported that political opposition to the curtailment of gold mining in South Africa lay primarily within the Government and specifically centred in the Ministry of Finance [of South Africa, where Holloway was Secretary of Finance]. Partly for this reason and partly because of the vocal small pro-Nazi minority, General Smuts is of the opinion that he could not issue a decree curtailing gold production. … Mr Price reported that the South African Ministry of Finance had three objectives in its war financing program:
>
> 1. The expansion of gold production;
> 2. The repatriation of as much UK-held South African securities as possible; and
> 3. Spending as little as possible on the war.[637]

But White was not interested in facilitating British Imperialism. He responded to the British proposal by saying "that, … the question of South African gold production is an internal one

[635] The US Treasury Papers, National Archive, College Park, Maryland, RG59, 848a, letter from Philip Brown to State Department dated 24 April 1942.

[636] The US Treasury Papers, National Archive, College Park, Maryland, RG59, 848a, letter from Philip Brown to State Department dated 24 April 1942.

[637] The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 13, File D4. Memo of meeting that took place on 8 October 1942 between Ellsworth and Price of the British Embassy in Washington and White of the US Treasury, dated 9 October 1942.

for South Africa."[638] Strakosch was more successful in securing American silver for Indian consumption when he met with White on 4 June 1943. London was thus able to retain as much gold as possible.[639] At a meeting at the US Treasury on 18 May 1943, White and a representative of the British Embassy discussed South Africa's gold reserves of $523 million, compared to Britain's of $930 million.[640]

Keynes's memo to another British Treasury official, Edward Playfair, on 12 July 1943 showed how the South Africans had managed to minimise their financial sacrifices even further -

> The South African Government have not taken full responsibility, as Canada has, for the cost of their troops and Air Force wherever they are operating. When, some long time ago, they were in East Africa, they bore the full expenses. When they moved further afield a different formula applied, and we had to take part responsibility. … South Africa gives the U.K. no reciprocal aid. For all goods and services in South Africa we have to pay cash. We even have to pay for the upkeep of Italian prisoners who have been sent there, quite a substantial sum.[641]

Ben Cockram, of the British Embassy in Washington, reported to the Dominion Office in London on 16 February 1946 that the South African government "did not wish to avail themselves of the invitation of the United States to send over a mission to discuss final

[638] The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 13, File D4. Memo of meeting that took place between Ellsworth and Price of the British Embassy in Washington and White of the US Treasury on 8 October 1942, dated 9 October 1942.

[639] The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 13, File D4. #27, Memo of meeting that took place between Strakosch, Robertson, and Phillips representing the British government and White of the US Treasury on 4 June 1943.

[640] The US Treasury Papers, National Archive, College Park, Maryland, Bretton Woods files. Box 20 File D4, Memo dated 18 May 1943.

[641] John Maynard Keynes Treasury Papers, Kew, London OF 272/109 Memo from Keynes to Playfair dated 12 July 1943. Italian prisoners of war were used as labour for infrastructural projects in South Africa, and it seems that their upkeep was paid for by the British.

settlement of lend lease, but that they would prefer to wipe this out by a lump sum payment."[642] While many countries that were involved in WWII were clamouring for US aid or loans, "the Union was now sitting pretty and could afford to watch the scramble from the side-line."[643]

At this time, Holloway stayed in touch with Kemmerer's thinking on monetary matters. In Holloway's papers, there is an article which Kemmerer published in *The New York Sun* on 11 January 1941. In it, Kemmerer bemoaned the explosion in public debt, while failing to mention its inverse relationship with private debt, which fell as public debt rose (see Keen; 2014). And the contact with the South African government continued as well. In 1943, the SABC asked Kemmerer, to do a broadcast "to the Union of South Africa on *Gold and International trade".* Kemmerer worked on this broadcast from the 22nd to the 24th of September 1943.[644]

10.5. Holloway at Bretton Woods

Holloway and de Kock arrived at Bretton Woods, in June 1944, as the official representatives of one of only four African countries invited to the conference. "Africa had few representatives at Bretton Woods for the simple reason that most of the continent was under colonial rule in 1944. Ethiopia, Egypt, Liberia, and South Africa, were the only African countries" present (Helleiner; 2014: 227). South Africa was in a considerably better financial position than it had been a year before the termination of WWI. This, in no small measure, was thanks to the enormous efforts made to strengthen the South African monetary, fiscal, and general economic health during WWII. "South Africa realised that in the event of economic disaster in the future it would be able to fall back on its gold reserves rather than the Fund's reserves. Its delegates appeared unusually relaxed about the political implications" (Conway; 2014: 231).

[642]Dominion Office Papers, National Archive, Kew, London, Britain, DO 35/254/78, Letter from Ben Cockram at the British Embassy in Washington to G. Kimber at the Dominion Office in London, dated 16 February 1946.

[643] Dominion Office Papers, National Archive, Kew, London, Britain, DO 35/254/78, Letter from Ben Cockram at the British Embassy in Washington to P. A. Clutterbuck at the Dominion Office in London, dated 4 September 1945.

[644] Kemmerer Papers, MC 146, Box 290, Folder 2, 1943-45 diaries, entries 22 September 1943 and 24 September 1943.

Holloway and de Kock arrived just before the Bretton Woods conference started. "Once in the States, the South African delegates cut short a meeting with the British because they wanted to play golf" (Rauchway; 2015:188). Conway thought that the defeat of the bimetal lobby meant that "the rival gold lobby, led by South Africa, could relax and maximise its time on the golf course" (Conway; 2014:261). Given how hard Holloway had worked on improving South Africa's finances in WWII, and the fact that Holloway had avoided all group negotiations up to this point, this sudden desire to "play golf" was probably more a strategy for not getting cornered into a commitment to the British, rather than a desire for leisure. The relative independence of the dominions, particularly the Union of South Africa, was well understood by the British Dominion Office representative at Bretton Woods, who, in his report to the Dominion Office in London noted,

> This conference has, I think, done much to demonstrate that the countries of the British Commonwealth by no means always speak with one voice and that the Dominions certainly cannot be relied upon to dance to the tune which London calls … [when they arrived just in time for the conference] I furnished the Union delegates with full documentation on the work which had been done aboard ship and at Atlantic City. With Lord Keynes, Sir Wilfrid Eady and Professor Robbins [I] gave an oral account of developments, but this discussion was cut short after twenty minutes because the South Africans had an appointment for golf.[645]

This is not to say that there was any animosity between the South Africans and the British, or between any of the delegations. Snelling reported that:

> The South Africans are to be numbered among the enthusiasts for the Fund. They sent a good team consisting of Dr Gie, Dr Holloway, Dr de Kock (of the Reserve Bank of South Africa) and Mr Naude. Like the Canadians, the Union representatives had no axes to grind. Happy in the possession of an enormous gold reserve, they had little use for a large quota and in the end gave away one-third of theirs to Poland and Czechoslovakia, thus bringing the last two up to $125 million and reducing themselves

[645]Dominion Office Papers, National Archive, Kew, London, Britain, DO 35/254/1/40, Report from A. W. Snelling, Dominion representative at Bretton Woods to P. A. Clutterbuck at the Dominion Office in London, dated 1 August 1944, page 6.

> to $100 million. I endeavoured to persuade Lord Keynes to give to Australia and New Zealand the $50 million which South Africa was willing to relinquish, but he did not feel able to do so because he regarded the merits of the Polish and Czech cases as being much greater than those of the other two Dominions. Relations with the South African delegates, and particularly with Dr Holloway, were excellent. He has humour and charm and proved to be one of the outstanding people at the conference.[646]

At Bretton Woods, Holloway was very clear about his mandate from his government:

> I was a member of the conference and I know in what spirit we drafted the agreements. I shall also quote from the Proceedings to illustrate the meaning of Art. IV (7) of the Fund Agreement, which created machinery for changing the price of gold. As a representative of the greatest gold producing country at all the meetings which led to the Fund Agreement, as principal witness before the Select Committee of the Union Parliament in the question of whether South Africa should join the Fund and as Secretary for Finance, maintaining intimate contact at the time with the thoughts of the Minister of Finance [Mr. Hofmeyr] and of Mines [Colonel Stallard], and of the principal Opposition spokesman on Finance [Mr. A. Werth], I can unhesitatingly say that if it had not been for Art. IV (7) providing for a change in the price of gold, South Africa would not have joined the Fund. Without the biggest gold producer conforming to its rules about gold the fund would from the outset have been as a ship without a rudder.[647]

There were essentially two aspects of the rules of the Fund that Holloway focused on in his negotiations, both in 1943 and at Bretton Woods. The first of these was that "in order to make it worth the while of gold producers to sacrifice their freedom a quid pro quo had … to be offered in the form of an undertaking by members to effect a uniform change in parities when

[646]Dominion Office Papers, National Archive, Kew, London, Britain, DO 35/254/1/40, Report from A. W. Snelling, Dominion representative at Bretton Woods to P. A. Clutterbuck at the Dominion Office in London, dated 1 August 1944, page 11.

[647] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J. E. Holloway entitled *Is a Rise in the Price of Gold "Uncovenanted"* dated 25 April 1974, page 2.

the time came for doing this."[648] The second was the right of gold producers to sell their gold to the highest bidder, and not be bound by the "official" price.

10.6. Keynes – Holloway Correspondence of the 10th of July 1944

Less than two weeks before Holloway spoke at Bretton Woods, John Maynard Keynes, as the chief negotiator of the British, had clashed with Harry Dexter White, the chief American negotiator, over the role of the dollar.

> On June 28 the two butted heads again, this time over the meaning of the critical but inscrutable terms 'gold convertible currency' and 'convertible exchange', which appeared several times in the statement of principles. The issuer of a currency considered as good as gold would potentially reap enormous benefits. Other countries would naturally want to hold vast reserves of such a currency in order to settle international payments and to act as a buffer against unforeseen financial difficulties. The issuer would, in contrast, need minimal foreign exchange reserves. It would earn 'seigniorage' profits from the interest on assets it would receive in return for its non-interest-bearing currency. It could, without limits, persistently buy more from abroad than it sold by simply printing money. Its firms would not suffer foreign exchange risk on the vast bulk of its trade. And finally there would be the non-quantifiable prestige associated with minting global money (Steil; 2013: 95).

Keynes was aware that the "exorbitant privilege" of controlling the world's reserve currency had slipped from the grasp of London, which was no longer the world's financial centre, and was moving westward across the Atlantic. Gold, for Harry Dexter White, was merely an instrument to secure the final dominance of the dollar as the world's reserve currency, and Jack Holloway, by proposing this price adjustment mechanism, was an ally for Keynes in his attempt to prevent the ascendancy of the dollar. Keynes's first prize was an international fiat currency which he called the bancor, which he had hoped could be erected as a genuine international means of payment, now that London no longer controlled the bulk of the world's gold supplies. When this idea was defeated, Keynes hoped that, by supporting the South African proposal to

[648] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J. E. Holloway entitled *Is a Rise in the Price of Gold "Uncovenanted"* dated 25 April 1974, page 4.

anchor the international monetary system in a gold standard, he might have a final tool to prevent dollar supremacy.

National interest was Holloway's central motive in suggesting an adjustment mechanism in the valuation of gold, as it was for Keynes in supporting it as the anchor of the new proposed world monetary system. What Holloway could not foresee was that it was not in the national interest of the US or Britain, the two countries with an effective veto power, to allow the price of gold in the system to adjust upwards, regardless of the theoretical merit of Fisher's (1920) and Holloway's (1944) argument.

Holloway made a statement to the conference at Bretton Woods on 10 July 1944, in which he focused on the need for "an orderly change of the relationship between gold and currencies in the future. I would remind you of the experience we went through during the last phase of the breakdown of the gold standard set in 1931. We were so accustomed to the traditional stability of the relationship between gold and currency that many of us hesitated for a lengthy period."[649] Holloway proposed a rectification to prevent the kind of failure that had occurred in 1931-33.

He pointed out that the new body that the Bretton Woods Conference hoped to create would have the advantage of a statistical record to make decisions on the adjustment of the official gold price more scientific.[650]

> It would appear essential to have machinery by which we can adjust the measure of value from time to time. I will go further and say that unless the world can achieve this measure of flexibility, its forward march into the future will proceed from crisis to crisis. This fund which we are trying to create will, for the first time in history, make available the exact data by which such adjustments can be accurately determined. The fund will, after it has been running for a few years, collect together a body of data and experience for this purpose. The fund's own series of statistics for its gold holding will give from month to month, from year to year, a chart of the physical condition of the

[649] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/B1/1 Statement by J. E. Holloway to United Nations Monetary and Financial Conference 1 July to 22 July 1944.

[650] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/B1/1 Statement by J. E. Holloway to United Nations Monetary and Financial Conference 1 July to 22 July 1944.

> economic system. If those data show that the gold holding tend towards the upper limit, it will be *prima facie* evidence that not much is wrong and that the relationship between gold and commodities is reasonably satisfactory. If on the other hand, gold tends regularly to flow away from the fund, it will be a pointer to the possibility that some change in its value in relation to all currencies may have to be considered. The fund will have exact statistical data for all the world of a similar kind to that which the Bank of England had for the United Kingdom in 1931 when the British government had to make its fateful decision.[651]

Keynes, in his *Tract*, pointed out that when faced with competing commitments to pre-agreed exchange rates and internal price stability, a country should first focus on an internal price stability that allowed the real national economy to be fully employed. "The pioneer of price stability as against exchange stability, Professor Irving Fisher, advocated the former in the shape of his 'compensated dollar' which was to be automatically adjusted by reference to an index number of prices without any plan of judgement or discretion" (Keynes; 1923: 187). Holloway proposed this internationally in his paper presented to the Bretton Woods conference. Keynes's enthusiasm for Holloway's proposal stemmed from his desire to prevent the Americans from substituting the dollar for gold as the world reserve currency.

Holloway's speech on 7 July 1944 had been to Commission One, which was chaired by White, and concerned the "Fund", the organisation that came to be known as the IMF. Keynes was the chairman of Commission Two, which dealt with the "Bank", which would become the World Bank. (Steil; 2013: 205-220). It took three days before Keynes had the time to read Holloway's speech, whereupon he wrote a letter to Holloway:

> I have just managed to find the time to read the statement that you made on July 7th. I feel I must write to say how much I agree with it. It seems to me that you were justifying

[651] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/B1/1 Statement by J. E. Holloway to United Nations Monetary and Financial Conference 1 July to 22 July 1944.

> the Fund precisely on the right lines. … I wish I had time before now to have a proper talk to you.[652]

Keynes added a Postscript "there is a matter about which I shall be rather glad to have a few minutes with you some time today". [653]

Holloway responded on the same day:

> Many thanks for your note of today's date, and the appreciative remarks you made about my statement, which coming from a man who vitally influenced my direction of thought on economic matters as long as thirty years ago is highly valued by me. [654]

Holloway agreed to Keynes's suggestion to meet at 6.30 p.m. Unfortunately, neither the Keynes, nor the Holloway, papers give any indication of what the meeting was about, nor what was discussed. Holloway may not have been aware of it, but his proposal served two purposes for Keynes. Firstly, as the British representative, Keynes would have been delighted with anything that delayed the US dollar becoming the world reserve currency, and hence bought London some more time. Secondly, although Holloway maintained his sound money and fixed money supply ideals all of his life, the fact was that, as Ricardo (1817) well understood, if money is linked to gold, "by diminishing its value, in the same proportion you will increase its quantity, and by increasing its value, diminish its quantity" (Ricardo 1817: 354). Keynes understood both these ideas well, having read Fisher (1920) and commented about them in the *Tract* (Keynes; 1923: 187), and having been aware since at least ICF (1913) of the need for elastic money supply.

[652] John Maynard Keynes Treasury Papers, Kew, London OF 272/109, letter from Keynes to Holloway dated 10 July 1944.

[653] John Maynard Keynes Treasury Papers, Kew, London OF 272/109, letter from Keynes to Holloway dated 10 July 1944.

[654] John Maynard Keynes Treasury Papers, Kew, London OF 272/109, letter from Holloway to Keynes dated 10 July 1944.

But we know from Steil (2013) that, just as Keynes was determined to keep the dollar out of the wording on the reserves of the Bretton Woods Agreement, so White was determined to include it. Dennis Robertson, another British economist and representative of the UK at Commission One, failed to understand its significance and suggested in the afternoon session of 13 July 1944 that "payment of official gold subscription should be expressed as official holdings of gold and United States dollars", noting that this would require word changes elsewhere in the agreement (Steil; 2013: 215-216). "White must have had difficulty concealing his flush of excitement. With Keynes preoccupied managing the World Bank proceedings, Robertson had walked straight into White's trap" (Steil; 2013: 216). The principle was agreed to and the drafting referred to the Special Committee, a group of technicians who replaced "gold" with "gold and US dollars" throughout the entire agreement (Steil; 2013: 216). White had got his way and Keynes was defeated.

Holloway was not the only person at Bretton Woods to think that he, as the South African representative, had established gold as central to the new monetary system. C. G. Evans, Acting High Commissioner in Pretoria, wrote to Viscount Cranborne in London, attaching the official (South African) statement:

> which was issued by the Union Department of External Affairs at the conclusion of the International Monetary Conference at Bretton Woods. … The official statement (drafted by Holloway, assisted by de Kock) laid stress on two points, that the conference had strengthened the position of gold which was recognised as the "final solvent", and that while the conference laid down plans for creating machinery, much would depend on the spirit in which the machinery is operated. … It was to be expected that a good deal of satisfaction would be expressed in the Union at the fact that the conference had brought back gold to its position as the fundamental reserve money. If gold is secure, then we can avoid "some planners" onto rather agitated pleas [sic] for far reaching and expensive industrial development.[655]

Upon their return to South Africa, both Holloway and de Kock wrote articles for the *South African Journal of Economics* and sent these articles to Keynes. Keynes responded to de Kock

[655]National Archive, Kew, London, Britain, DO 35/254/1/41, Letter from C. G. Evans, Acting High Commissioner in Pretoria, to Viscount Cranborne in London, dated 23 August 1944, page 6.

on 27 March 1945 that, "I feel you have handled the gold standard issue very fairly and candidly."[656] Away from public ears, C. G. Evans, Acting High Commissioner in Pretoria, was less effusive, "Dr de Kock gave an interview to the press on his return to the Union, and his statement which was otherwise somewhat uninspired and entirely non-committal, laid stress on the need for the right spirit in carrying out the plan".[657] In his preface to *Central Banking*, de Kock criticised previous work on the subject as being too "controversial" (de Kock; 1939: xii). In *Central Banking*, the only person who received an acknowledgement of gratitude was one of the most powerful men on Wall Street, and one of the staunchest opponents of the Bretton Woods agreements, "Dr Burgess, a Vice President of the Federal Reserve Bank of New York" (de Kock; 1939: xiv). In his 1944 article, *International Bank for Reconstruction and Development*, de Kock made sure that he was sufficiently opinionless, so as to avoid controversy. Over nine and a half pages, de Kock managed to produce an almost entirely descriptive work. When he presented the opinions of Wall Street bankers, he couched their criticisms in the anonymous third party, noting that "some critics of the fund have even taken the line that" the bank could stand on its own, separate from the IMF, which might or might not survive (de Kock; 1944: 231). By contrast to de Kock's dull effort, Holloway's (1944) article was, to my taste, his finest piece of writing. Acting High Commissioner Evans's enthusiasm for Holloway's contribution[658] was matched by that of Keynes, who responded to Holloway's article, "Thanks for sending me your article on Bretton Woods in the Journal of Economics. I don't think I have read anywhere a more lucid or accurate statement in so short a space."[659] It was masterful in remaining true to Holloway's "sound money" principles, while acknowledging the fact that the new system had to address the failures of the gold standard in the interwar period.

[656]National Archive, Kew, London, Britain, T247/112/272/109, letter from Keynes to de Kock dated 27 March 1945.

[657] National Archive, Kew, London, Britain, DO 35/254/1/41, Letter from C. G. Evans, Acting High Commissioner in Pretoria, to Viscount Cranborne in London, dated 23 August 1944.

[658] National Archive, Kew, London, Britain, DO 35/254/1/41, Letter from C. G. Evans, Acting High Commissioner in Pretoria, to Viscount Cranborne in London, dated 23 August 1944.

[659]National Archive, Kew, London, Britain, T247/112/272/109, letter from Keynes to Holloway dated 27 March 1945.

Holloway (1944) used Keynes's rhetorical technique of starting off by praising the orthodox "sound money" position in a way that suggested that he has nothing new to add, and then suddenly made a new and interesting contribution.[660] He started as Kemmerer (1934) might have, wedded to the old "sound money" orthodoxy and showing no signs of having learnt anything from the disorder of the interwar period. The gold standard, Holloway told us, provided, through the price specie flow mechanism, "a salutary reminder of the virtue of living within one's means" (Holloway; 1944: 205). He described the depreciation of a currency from the view of a consumer as "making the terms of trade more onerous", instead of looking at its effect in making export, and import-substitution producers, more competitive.

He described the 19th century in glowing terms "characterised by a large measure of flexibility … This flexibility showed itself in a degree of mobility of wages, labour and capital" (Holloway; 1944: 206). "Wages moved upwards or downwards in rough sympathy with the trade cycle. If an exporting country could no longer retain its markets on a given level of wages, the resulting pressure of unemployment readjusted the level in conformity with the price which international competition determined as the value of the finished product" (Holloway; 1944: 206 – 207). He praised the "large measure of freedom of migration", noting that "The USA absorbed millions of people from Europe. To a smaller extent there was mobility of labour between other countries" (Holloway; 1944: 207). No mention was made of his own efforts to stop Jewish migration to South Africa in the interwar period.[661] Holloway described how this equilibrating system came to an end with policy foolishness after WWI:

> Wage legislation has reduced the adjustability of wages to a lower international value of finished articles. Immigration laws have reduced the international flow of labour to

[660] Keynes uses this rhetorical technique in Chapter 3 of the *Tract,* dealing with "The Theory of Money and of the Foreign Exchanges", and particularly in the sub-section dealing with the Quantity Theory of money (1923:74 – 87). He also uses it to describe the *dramatis personae*, first focusing in his description on a physical aspect of them that he finds off-putting, and then describing their nobility of spirit. The method is very effective as a technique of praise, equivalent to walking through the narrow, low ceilinged passageway in Frank Lloyd Wright's home in Chicago, and then entering the splendour his double-volume living area.

[661] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 1/J1/1, see also Shain (2015:11).

> a mere trickle. Political uncertainties have played havoc with international lending (Holloway; 1944: 207).

So far there was not a word about the inherent instability of the international banking sector and, at this stage in his argument, Holloway gave no thought to the "development money" explanations of what took place after 1914, at the end of the greatest experiment in global laissez-faire thus far in history. In the same year that Holloway was writing(1944), Karl Polanyi offered an opposing explanation: "that the origins of the cataclysm lay in the utopian endeavour of economic liberalism to set up a self-regulating market system" (Polanyi; 1944: 31). Polanyi explained how "the divorce of economic motive from all concrete social relationships" (Polanyi; 1944: 57) in the 19th century sowed the seeds of instability which led to the rise of fascism. "Instead of economy being embedded in social relations, social relations are embedded in the economic system" (Polanyi; 1944: 60).

Holloway (1944) had described, up to this point, a world in which prices adjusted within a national economy, so that the external price of currency between countries could remain unchanged. Polanyi pointed out that:

> If factory legislation and social laws were required to protect industrial man from the implications of the commodity fiction in regard to labour power, … it was equally true that central banking and the management of the monetary system were needed to keep manufacturers and other *productive* enterprises safe from the harm involved in the commodity fiction as applied to money … the organisation of capitalist production itself had to be sheltered from the devastating effects of a self-regulating market (Polanyi; 1944: 138)

Following Keynes (1923), Holloway argued that in order to recover full national production, recover from the nominal wage reductions, and rescue farmers from the devastatingly low prices of their produce, the price of the currency needed to be adjusted. Flexibility needed to shift from internal prices to international currency markets.

"Money", Holloway said, "deals with something objective rather than with the wishes and aspirations of people" (Holloway; 1944: 207). But currency needed to become flexible, in order to relieve labour of the intolerable flexibility previously demanded of the wage rate, and to

relieve farmers of the intolerable flexibility of agricultural prices. The lives of workers, farmers, and manufacturers had been turned upside down by deflation, the flight of capital, and an uncompetitive currency. Up to this point, Holloway avoided the feast-or-famine nature of Wall Street credit, and its inherent instability. If the essay had ended here, it would have fallen into the same category as *Kemmerer on Money* (1934), a "sound money" tract, loyal to theory, and divorced from the reality of the past twenty years.

Fortunately, it did not end there. Holloway, the consummate diplomat, went on to describe the British change of fortunes. He told how "before the war [Britain was] the largest single power in international trade", but in the war was forced to "not only divest herself of a large part of her foreign securities" but also to incur "a huge foreign debt in the course of the war. Much of this will be presented by currencies blocked in the United Kingdom" (Holloway; 1944: 209). Keynes, as a patriotic Briton, was bound to be impressed by the sympathetic treatment of his country by the Secretary of Finance of a dominion.

Holloway echoed Keynes, White, and the majority zeitgeist of Bretton Woods, by noting that "Unless new monetary bridges can be built over which a large volume of international trade can safely be carried, mankind will be deprived of one of the most potent means of raising the general level of welfare" (Holloway; 1944: 209).

Holloway then broke with the "sound money" talking points to redress the great failings of the unregulated free market system that collapsed in the interwar period. He acknowledged that the new system would have to "create machinery to help a country over disequilibrium in its balance of payments", and "to create better facilities for long term loans for *productive* purposes than had obtained in the interwar period" (Holloway; 1944: 209) (Italics mine). Regarding the traumas unleashed on workers, farmers, and manufacturers by the failure of the laissez-faire system that Polanyi (1944: 31) described, Holloway now conceded, "Is it not therefore better to recognise that conditions are pathological and provide remedies than assume that the patient is in a healthy condition, and place strains on him beyond his power to bear?" (Holloway; 1944: 210). When discussing the seasonal needs of a country, Holloway, following Keynes in *ICF* (1913), pointed out that "a country largely dependent for its foreign exchange on a seasonal crop may require foreign exchange accommodation during the growing season" (Holloway; 1944: 211-212). Keynes had criticised the British-controlled Indian government for the fact that "[m]illions of rupees were lying idle in the government treasuries at the time

of year when there was most work for them to do outside" in the growing season (Keynes; 1913: 258).

"Owing to various factors such as inexperience of US bankers in foreign lending … the scarcity of the US dollar was not sufficiently offset by the foreign lending. … the drawing away from other countries of their international money weakened their own currencies and led to other deleterious measures to which I have already alluded" (Holloway; 1944: 213). Holloway then got to his own great contribution to the negotiations leading up to Bretton Woods, and at Bretton Woods itself, which became Article IV, Section 7 of the Bretton Woods agreement entitled *Uniform changes in par values,* which effectively allowed for a revaluation of the gold price. Holloway thought that it was "unlikely that it will be possible in the future to maintain a fixed price for gold for so lengthy a period as that which ended in the thirties" (Holloway; 1944: 219) and that periodic upwards adjustments to the price of gold would be necessary. "The Fund proposals provide for a uniform change in the gold value of all currencies provided a majority of the votes are cast for it" (Holloway; 1944: 219).

Holloway conceded that "exchange controls of capital movements would not constitute an infringement of the purpose of the fund, for example, in the case of marked movements of 'hot money' … The stress is on a large and sustained outflow of capital" (Holloway; 1944: 220). Helleiner pointed out that the relative stability of the 1950s was aided by the policing of capital flight, a policing that Keynes and White supported (Helleiner; 1994: 55-62). As South Africa was a creditor country in good financial shape at the time, Holloway thought that

> such a system can only work if countries able to finance it, are willing to do so, … in return for the benefit of a higher level of international trade and therefore a bigger demand for its exports. … international trade will tend to increase the demand at payable prices for its agricultural and base mineral exports, and therefore to restore the balance between these and gold in the national economy, which was so badly disturbed during and after the Great Depression (Holloway; 1944: 222).

Twelve years after the 1932 crisis, Holloway now appreciated the importance of policy that supported a multi-sector economy.

In his reply to Holloway, Keynes described the FDR administration's "terrific, nationwide publicity campaign" and Eddie Bernstein's contributions to it. "In fact, almost everyone except Isolationists, a few antique alleged economists and the New York bankers"[662] were on board.

10.7. The Snyder -Havenga incident

Even if we allow what we should not, that internal prices can and do adjust across all sectors in a national economy, and in all countries committed to a global laissez-faire system, the Price Specie Flow Mechanism still fallaciously assumes that all countries allow money to flow through their economies, and allow prices to adjust without "interfering". Keynes was never so foolish as to accept these assumptions. Holloway, with his faith in the international gold standard, must have, at least tacitly, assumed that once the Americans gained control of the world financial system, they would behave differently to the British. All South Africans who were literate and informed on economic matters, observing British behaviour during WWI, would have been aware of the extraordinary profit which the British made by syphoning off the output of South African gold mines, abusing their position as custodians of the world gold market. In the late 1940s, Holloway had failed to get the Americans to consider an upward adjustment in the gold price within the Bretton Woods system. The dollar was the anchor the Americans had in mind.

As this dawned on the South African Treasury, and given the bitter experience of the British paying well below the best market price for South African gold during WWI, South Africa insisted on the provisions agreed to at Bretton Woods, that they were not obliged to sell their gold through the Bretton Woods mechanism, if higher prices were to be had elsewhere. At a meeting of the Board of Governors of the IMF on Tuesday 13 September 1949,[663] "Mr Havenga

[662] National Archive, Kew, London, Britain, T247/112/272/109, letter from Keynes to Holloway dated 27 March 1945.

[663] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949. Prominently marked in Holloway's papers was an envelope entitled "24 September 1949 – Story of 'The Snyder-Havenga incident' – a fight about the right of gold producers to 'sell at a premium'".[663] The first page is marked "Private--not for publication, The 'Incident' of 14/9/49". But, in 1979, Holloway wrote on it, "this

had moved a motion in the meeting of the Board of Governors the purpose of which was to enable a gold producing member country to sell not more than half its newly minted gold at premium prices. … Mr Snyder without attempting to meet any of the points raised by Mr Havenga … proposed to refer the motion to Executive Directors for appropriate action."[664], "Mr Snyder … was violently opposed to the Fund taking a resolution, which would have thrown the whole question open and admitted to the world that the whole question, including the question whether the United States was paying a fair price for gold, was being investigated by an international body."[665] Holloway lamented that "Everyone kept quiet and it was clear to us that the United States was dominating the Fund … In fact the absence of an international character in the fund was painfully obvious to all."[666] John Wesley Snyder, the US Secretary of the Treasury, who had a reputation for being "wholly undiplomatic and rude" (Hennessey; 2006: 340),

> got up and came to him [Havenga]. … His face was red and he was clearly showing the effect of having had more to drink over lunch than was wise just before a difficult discussion. Mr Havenga replied very quietly and in a low voice that he could not accept a motion which would side-track the whole issue of the price of gold. Thereupon Mr Snyder said sharply "Mister Minister, if you keep on provoking me I shall make the price of gold what I like and you will see where you will then be". Mr Havenga kept

information can now be used".[663] Holloway explained that this "incident" was reported "in several United States newspapers … [and that] there were hot words between the two ministers". But Holloway stated that "I observed the whole of the incident which was heard at close range by only a few people."

[664] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949, page 2.

[665] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949, page 3.

[666] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949, page 4.

> his temper under complete control, and said quietly and with a smile "Mr Snyder, I think America is too great a country to resort to threats of using the big stick."[667]

When Havenga realised that other countries were not prepared to cross the US, he said

> "I would rather withdraw my motion", he added the significant and cryptic words "and reserve my liberty of action". These six words fell like a bomb exploding in the meeting.[668]

Further negotiations followed, and the South African government continued to hope in vain that a revision in the official price of gold would be agreed. The front-page article of *The Financial News and Times* of 8 September 1950 reported favourably that Havenga's proposal that "Gold at 56 Dollar an ounce will revitalise democracies".[669] Holloway failed to acknowledge Ricardo's point that, by revaluing the price of gold upwards, he was in fact increasing the money supply (Ricardo; 1817: 354). FDR's revaluation of the gold price relative to the reserves had created a surplus (stabilization) fund, which he used to promote the Bretton Woods system (Steil; 2013: 34).

On 11 March 1950, Holloway wrote to the Managing Director of the IMF, who had questioned South African gold sales outside of the Bretton Woods system:

> I must, however, take strong exception to the following words appearing on page 34 in regard to our initial "experimental sale": "… But it was not clear that they had paid sufficient attention to the problem of evaluating the bona fide character of such demand for gold for industrial, artistic or professional use or that the safeguards which they

[667] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949, page 6.

[668] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515, file 8/1/1, *The Snyder-Havenga "incident"* Handwritten report on R. M. S. Queen Elizabeth stationery dated 24 September 1949, page 8.

[669] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/G2/7, *Three Steps to Sanity* in *The S.A. Financial News and Times*, page 1.

> proposed were in fact adequate for the purpose of preventing evasions of the Fund's gold policy."
>
> …
>
> We were dealing with firms of the highest reputation. I personally supplied Monsieur Gutt with the names of these firms and apart from saying that there were two he did not know he suggested no reason why any doubt could be cast on the bona fides of the others. For the staff now to cast a reflection on us in the report requires an explanation.[670]

In his 1952 statement at the Seventh Annual Meeting of the IMF in Mexico, Holloway sought to merge "sound money" and "development money" ideas:

> I believe that the problem will remain insoluble unless we can succeed in finding a satisfactory and practical basis for reconciling two ideals which are not always compatible, namely, the ideal of full employment and social security, as opposed to the ideal of currency and exchange stability and the removal of discriminatory trade practices. ... The readjustment that was bound to follow on the 1914-1918 war would not have turned into a devastating depression had Governments recognised in time that the huge credit inflation with which they had financed the war made it impossible to maintain the pre-war relationship between gold and paper currencies.[671]

In the 1950s, Holloway continued to correspond with international bankers, many of whom had opposed the usurping of their dominance by the Bretton Woods Institutions. In a 1955 letter to W. Randolph Burgess, the banker most involved in leading Wall Street opposition to Bretton Woods, Holloway expressed his disappointment that the US authorities did not behave in the fair-minded way required for equilibrium to be achieved. The British had failed to allow Hume's Price Specie Flow Mechanism to work, and now the Americans were doing the same. "We carried out our undertakings loyally only to find out that reciprocal action by the 'big'

[670] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV 515 1/B1/1 Statement by Holloway entitled The Aftermath of Bretton Woods, page 5, dated April 1970.

[671] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, File 1/G2/7 Statement of Governor for the Union of South Africa at the fifth session of the Board of Governors of International Monetary Fund dated 9 September 1952, page 2.

members, which was part of the Bretton Woods approach, was not forthcoming. We made our contribution, but got nothing in return. … by continuing to play ball with the Fund *we had lost millions which could readily have been obtained in the free market*"[672] (italics mine). This was an admission by Holloway that the Americans had underpaid for South African gold after Bretton Woods in 1944, just as the British had after the August Agreement of 1914. Holloway detailed how the US Treasury manipulated the Bretton Woods system to their own benefit and quoted with disapproval Harold Wilson's reason for not allowing a revaluation of the official gold price as "it would simply provide an uncovenanted benefit to two countries – South African and Russia."[673] Although he steered clear of international equilibrium arguments in his later years, Holloway remained a "sound money" advocate for the rest of his life.

10.8. The National Party negotiated international loans of 1948

After the surprise victory of the Reunited National Party in May 1948, there was some concern amongst the owners of mining company shares about the possibility that the new government of Dr D. F. Malan would nationalise South African gold mines. With this came the threat of capital flight. In this context, Gerald Orpen, Chairman of Syfrets Trust, wrote to Havenga on 19 January 1949 about the "adverse criticism of the Union's financial position and policy in overseas papers such as *The Financial Times* and *The Economist*."[674] Orpen went on to note that the "Rt.Hon. Brenden Bracken M.P. is Chairman of Union Corporation (a Gold Mine Holding Company)", in addition to being Chairman of both publications, was a severe critic of Hofmeyr's financial policy, and was "obsessed with the idea that the Gold Mines have been unfairly treated by successive Governments in the Union".[675] Hofmeyr was Finance Minister,

[672] J. E. Holloway private papers, Private Bloemfontein Collection. Letter from Holloway to Burgess dated 13 June 1955.

[673] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J. E. Holloway entitled *Is a Rise in the Price of Gold "Uncovenanted"* dated 25 April 1974, page 1.

[674] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 2, letter from Orpen to Havenga dated 19 January 1949.

[675] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 2, letter from Orpen to Havenga dated 19 January 1949.

and Member of Parliament for Parktown, when the government implemented an excess profit duty on gold mining companies, which now enjoyed higher than usual profits as a result of the increased gold price after Britain, and later South Africa, left the gold standard in September of 1931 and December 1932 respectively. Hofmeyr's papers at the Callum Library at the University of the Witwatersrand contain letters from numerous constituents, furious at Hofmeyr for taxing the Mining companies in which they had invested.[676] Bracken was the intermediary in the purchase of shares from Winston Churchill in 1938 by Strakosch, in order to save Churchill from financial embarrassment,[677] and took over the Chairmanship of all three entities, *The Financial Times, The Economist* and *Union Corporation* from Strakosch upon Strakosch's death in 1944.

In parliament on Friday, 6 September 1948, Havenga, now Minister of Finance in the D. F. Malan cabinet, told the House "that a London loan would not solve the Union's dollar problem … The government, he said, would have no objection in principle to an American loan if South Africa could borrow in the United States on conditions corresponding to its proven credit worthiness".[678] This was conveyed to Charles Te Water, Ambassador at Large at the time in London, on 7 September 1948 and, on 8 September 1948, Charles Te Water told of receiving this news just before his meeting with the Governor of the Bank of England, Lord Catto, a "shrewd little Scot" who is very helpful to South Africa. Te Water reported Catto's advice to contact President Harry Truman, then Secretary of the Treasury John Snyder, then the Governor of the Federal Reserve Sproule (sic). Actually, Allan Sproul was President of the Federal Reserve Bank of New York. Te Water reported that Allen Sproule (sic) "would doubtless then refer our government … to one or other of the 'big three' financial houses, Chase, National or Morgan's – probably Morgan's". Te Water wrapped up his chatty letter to "My dear Klaas", indicating that the trip to the US to negotiate this "will suit me and fit in with my U.N.O. work better"[679].

[676]The J. H. Hofmeyr Papers, University of the Witwatersrand, Box Cg.

[677]See Bordiss (2014) and also Lough (2015)

[678] J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Te Water to Havenga dated 8 September 1948.

[679]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Te Water to Havenga dated 8 September 1948.

Minutes of a meeting between representatives of the British and South African governments in London, on 10 August 1949, showed that Havenga took Holloway along to negotiate a British loan, and not Te Water. These minutes, and a "Top Secret" letter from Holloway in London to his Acting Secretary for Finance, T. J. Canty, revealed the South African plan to borrow £20 million on the London Market at an interest rate of 3,5%, and instructing him to "act very quickly" when receiving the instruction, as the money market "is at present in a frightfully bad condition". Less than a month earlier, Holloway had received a letter from the South African Embassy in Washington in response to earlier instructions from Holloway. In this letter of 26 July 1949, Holloway was informed

> the outline of a conversation which I had yesterday with Kingman Douglas of Dillon Read and Company. Douglas feels that … the American bankers will probably be suffering some nervousness because of the impending International Fund meeting and because of the talks … on devaluation of sterling and other currencies. Douglas accordingly sees some advantage in now making preliminary approaches to his banking friends to see if they will in part commit themselves to providing portions of the loan which Dillon Read and Company hopes to raise on behalf of the Union Government. He asks therefore for authority to go ahead on these lines.[680]

Canty concluded, confirming that Holloway had told him that he would make that sort of decision "only after your arrival in New York", and asked Holloway for any further instructions. It is interesting that the South African government chose to open negotiations, not with J P Morgan, or another of the "big three", but with Dillon Read, the company that had Edwin Kemmerer on their payroll, and for whom he negotiated a number of loans for the governments of countries that he consulted for. With the news of Havenga and Holloway's arrival in New York, Guaranty Trust wrote to the Embassy, offering them a car and a chauffeur "or render some other services" for their stay in New York[681]. But Holloway was not budging from his plan and he wrote to M. H. de Kock and the SARB on 26 August 1949, informing

[680]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from name unclear at the South African Embassy in Washington to Holloway in London dated 26 July 1949.

[681]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from K. G. Colwell to H. T. Andrews at the South African Embassy in Washington dated 18 August 1949.

him that, "We have therefore pursued the suggestion of Dillon Read & Co. and at the moment things are looking very favourable for our getting about $60M for five years. The rate might go as high as 3,25%, but as it would be a pioneering venture, we must pay for it"[682]. Holloway ended off confirming that "I think we shall get about £20 000 000 in London this year and $60 000 000 here".

In a follow up letter to Canty at the Treasury in Pretoria on 26 August 1949, Holloway revealed "Both Havenga and I are quietly optimistic about our prospects. It is clear that in growing circles South Africa is being recognised as the best foreign risk going"[683]. Holloway sent Douglas of Dillon Read monthly gold mine sales figures from the SARB on 31 August 1949[684] and, on 22 September 1949, Harold Stanley of Morgan Stanley wrote to Havenga that he did not "know the status of your discussions with Dillon Read & Co. or with the Export-Import Bank … (but that he wanted) to repeat … that our firm would be very glad if we can ever be of assistance to your country" noting that "we have done it the case of Canada and Australia".[685] The end of this particular loan application process was announced in the response by Holloway to the Morgan Stanley letter when, on 28 September 1949, Holloway thanked Stanley for his "offer of assistance", but informed him that, "As you are aware we have been conducting certain transactions through Messrs. Dillon Read and Company but we have come to the conclusion that the time is not opportune for undertaking a public issue in the USA"[686]. Wall Street firms had been trying to secure a loan to the government of the Union of South Africa since the early 1920s (see pages 103 - 104 above) but, by 1949, they had still not succeeded. It

[682]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Holloway to de Kock dated 26 August 1949.

[683]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Holloway to Canty dated 26 August 1949.

[684]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Holloway to Douglas dated 31 August 1949.

[685]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Stanley to Havenga dated 22 September 1949.

[686]J. E. Holloway Papers, National Archive, Pretoria, Collection A80 Box 20, Letter from Holloway to Stanley dated 2 September 1949.

appears that, once again, the South African government still placed its loan business via the London Market.

When D. F. Malan announced that he was stepping down in October 1954, a race for the leadership of the National Party broke out between Havenga and Hans Strydom. When Strydom won, Havenga was banished from the cabinet. Bruwer took the opportunity to write to one of the new cabinet ministers. He told of his poor health, his farming misadventures and his impecunity[687]. Bruwer reminder the reader that he had been cast into the wilderness after he challenged the government's flawed monetary policy in 1932. The letter ended "I am now twenty two and a half years in the wilderness, is it not time to forgive and forget?". The following year Bruwer was appointed Chairman of the Rand Water Board, a position he held until 1968. With the change in leadership to Strydom, and after Havenga's death in March 1957, Bruwer attempted to put forward his ideas again in his book *South Africa: A case for a national gold and banking policy* (1957), the preface of which was written in July. In it he claims credit for the variable gold price idea, and publishes his exchange of correspondence with Keynes in early 1944 (Bruwer; 1957: 167-170), failing to mention that Holloway had tentatively raised this issue in 1932, and more forcefully at Bretton Woods (Bruwer; 1957: 112-115). He again criticised SARB and de Kock, for failing to be a development bank (Bruwer; 1957: 175), but failed to mention that the Industrial Development Corporation had been doing development finance for over a decade. Bruwer criticised Vissering for counselling against a State Bank (Bruwer; 1957: 172-178), Holloway (Bruwer; 1957: 128), Havenga (Bruwer; 1957: 123-126), and Clegg (Bruwer; 1957: 178-179). But this appears to have been his last effort at trying to influence monetary and banking policy. He never appeared in print criticising government monetary policy again, and died on 17 September 1983[688], aged 87.

Holloway died four years earlier, on 27 October 1979, aged 88. Unlike Bruwer, Holloway, who was relatively cautious in expressing himself on monetary policy matters in the 1920s and

[687]This letter was amongst the private papers of Bruwer on his farm Mymering, now owned by Dr Andrew Hillock. It was given to Bruwer's niece, who visited the farm from the US. Hillock stated in a letter to me (when I visited the farm for research purposes from 29 March – 1 April 2019), that he "clearly remember(s) his words to be "Ek is nou 22 en 'n half jaar in die wildernis, is dit nie tyd om te vergeet en vergewe".

[688]Gravestone on the farm Mymering, Ladismith district. Even in death, Bruwer was not properly represented. His gravestone reads "Andreas Bruwer", instead of Andries.

30s, was relatively active in expressing himself in retirement. After his death and funeral, his family sent out a thank you card to his friends and colleagues. Inside, it read "The children, grandchildren and great-grandchildren thank you for your sincere support and sympathy during the last illness and death of their beloved father, Dr Jack Holloway". On the front cover of the card was a photograph of a smartly dressed Holloway, with his dates of birth and death below his name. Nothing else was on the card, except the phrase, in Afrikaans above his photo, and below it in English –

Gold is unchangeable – Gold is honest money

In life, and even in death, Holloway was a sound money man.

10.9. Summary and Conclusion

The research for this thesis leads to the confident conclusion that Holloway's negotiations, commencing with those in London and Washington in 1943, the negotiations in London via his proxies van Eck and Steyn, supported by Bruwer's letter in February 1944, and Holloway's representations at Bretton Woods in July 1944, were the most probable cause of Article IV, Section 7 and Article V Section 6(b)[689] in the Bretton Woods Agreements. With South Africa producing 60% of world gold, there was no other country who stood to gain as much from these two clauses as South Africa did. And while there is ample evidence of South African representatives, chiefly Holloway, pushing hard for both of these clauses, I found no evidence of the representatives of any other country demanding them.

So, although Holloway, in his typical modesty, did not claim any personal credit for these achievements, it is clear that this credit falls mostly on his head. But these words were to mean nothing. Having lost the bid to keep the US dollar out of the description of the reserves of the Fund, the British saw no reason to revalue gold in the system. The United States, having got their way in crowning the dollar, along with gold in the Bretton Woods agreement, were then determined to polish only one crown, that of the dollar, and to relegate gold to a second-class status.

[689]J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J E Holloway entitled *The Failure of the Bretton Woods System* dated 7 December 1978, page 2.

Holloway's hope that the Americans would be neutral arbitrators of the international monetary system, was shattered. Just like the British before them, self-interest intervened. And this not-so-invisible-hand cost South Africa, just as it had cost her thirty years earlier at the hands of the British.

CHAPTER ELEVEN: CONCLUSION

Speaking of Hegel's recipe in *The Philosophy of Right* (1821), Padayachee (2020) notes of Hegel that "only state power can contain the excesses of capitalism … In this view society should be managed by an educated bureaucratic elite in the national interest" (Padayachee; 2020: 1). South Africa, in the period considered by this dissertation (1914-1950), was just emerging from what Amin (1974) and Wallerstein (1979) called a country on the periphery, to what Wallerstein (1979) called a semi-peripheral country. It was the era of the emergence of a 'National Capitalism' (Hart & Padayachee 2010).

The period begins with South Africa only just emerging from the complete subjugation to the British that was achieved with the Boer War. At the beginning of the 1914 -1950 period, the vast majority of capital which was employed to exploit the potential in South Africa, came via the London market. By the end of the period, the leading Randlord, Ernst Oppenheimer was praised by Holloway for making a home in South Africa and for reinvesting there, unlike the absentee "Uitlander Randlordism"[690]of the previous era. On the subject of the financial health of the gold mines and the state, in August 1914 an agreement was signed between the Bank of England and the South African gold mine-owners. In terms of this agreement all gold was to be sold to the Bank of England at the "official" price. This resulted in the British government making substantial profits on South African gold, and the gold mining industry, and the South African fiscus emerging from WWI in a relatively weak position. The strikes in the gold mining industry in 1914 and 1922 can be contextualised by this weak financial position. Although a similar agreement was signed between the Bank of England and the South African government in 1940, South Africa was considerably more financially independent in WWII, than she was in WWI.

[690]J. E. Holloway private papers, Private Bloemfontein Collection. Article for *Optima* 1970 by Holloway, page 146.

The period of 1914-1950 witnessed the struggle of Afrikaner nationalists to gain sovereignty for South Africa, independent of British control. Many of them saw the emergence of the US as a rival world power, as an opportunity to break the bonds with London. But as much as the bitterness of the Boer War was fresh in the minds of most Afrikaner nationalists, many were aware of the fact that commercial and capital market bonds with London was the presenting reality. To ignore this fact was to do harm to the South African economy. In the early 1920s, an American entrepreneur, I W Schlesinger, tried to secure a South African government loan via Wall Street, and failed. Despite the considerably weaker position of Britain in 1950, compared to 1914, the South African economy was still linked to the London market, and had not yet conducted the same level of business with New York.

The interwar period was particularly interesting in terms of international monetary policy geopolitics. By the early 1920s Wall Street was flush with money from a prosperous United States, and from capital flight out of Europe. The US administrations were broadly supportive of Wall Street's strident lending to foreign governments. In the early 1920s, when foreign governments sought advice on how to curry favour with the emerging superpower, the State Department had discovered an arms-length way of dispensing advice which suited its international financiers. It would recommend the appointment of the "money doctor", E W Kemmerer, who would advise the establishment of the gold standard. This would facilitate the loan business of Wall Street. One of Wall Street's most aggressive foreign lenders was Dillon Read, who paid Kemmerer both a retainer, and commission on certain loans.

In the 1920s, London was doing its best to retain the position as financial capital of the world. Given that Britain no longer owned the majority of world bullion, the gold exchange standard suited this quest. In Wall Street's drive to capture this central role, forcing Britain back on the gold standard was a key element of their plan. This they achieved in 1925. The South African decision to accept the recommendations of the Kemmerer-Vissering Commission Report was key to this American victory (de Cecco; 1985:51). This was apparent with hindsight, but at the time the majority opinion in Britain was in favour of a return to the gold standard, with John Maynard Keynes holding the minority opinion that return would be to Britain's detriment.

But with the collapses which commenced in 1931, Britain being forced off the gold standard in that year, and the inauguration of FDR in the US in 1933, the political zeitgeist shifted. Previously the dominant thinking was that represented by Kemmerer. The orthodox model

was one in which capital, labour and goods would flow freely in an unregulated laissez-faire system based on the international gold standard. This system favoured the creditor who was secure in the knowledge that his debt held its value, regardless of the vicissitudes in the real economy.

But in the United States a new monetary policy approach began with FDR's inauguration in 1933. To the applause of Keynes, FDR refused to commit to international monetary obligations, when domestically the country was far from full employment. FDR refused to recommit to the gold standard, taking a firm development money approach. He used his ten-dollar bill example with James Warburg to make the point that money is a social convention (Rauchway 2015: 65). Keynes met White in 1941, and soon after started to discuss the architecture of a new international system. Although Keynes represented a heavily indebted nation, Britain, and White the world's biggest creditor, they shared an understanding that an era of sound money policies, permitting the global free movement of capital that suited the banks, was a part of what had created the cataclysm in the interwar period, which led to WWII. They were both development money thinkers.

And so, when Keynes was given the option of abandoning the negotiations with White, in favour of a Wall Street loan, he declined the bankers' offer, and continued to finalise the Bretton Woods agreements with the FDR administration. This was the international context in which Bruwer and Holloway, two internationally trained Afrikaner economists, found themselves.

In terms of background, temperament, theoretical approach and career trajectory, Holloway and Bruwer could not have been more different. Holloway's father moved to Stellenbosch under reduced circumstances and he worked in a clothing shop while at school. While studying for his Ph.D. at LSE, Holloway became convinced of the virtues of the sound money properties of an international gold standard which equilibrated via the price specie flow mechanism, of financial discipline, of a balanced budget that proved that a country was "living within its means".

Bruwer was the eldest son of a wealthy farmer, who had forty-nine dress shirts in his cupboard. The family took annual holidays to their beach house at Still Bay (Bruwer 1957). This father paid for Bruwer's American studies by selling a small portion of the farm.

As an indication of their different temperaments, Bruwer and Holloway took opposing positions in response to the Maritz Rebellion against the government. Bruwer was uninterested in constitutional and parliamentary niceties. He joined an anti-government militia while at Victoria College (now Stellenbosch University) and considered his father-in-law who died as a part of the rebellion, a hero. Holloway on the other hand, carefully separated the issues of Afrikaner grievances against the British, from the merits and demerits of supporting the fight against the Germans. He disapproved of men, who had taken an oath of allegiance to the government as army officers, breaking that oath. And he was willing to put his trust in the parliamentary process, to eventually deliver an Afrikaner nationalist government.

In their theoretical approaches, Bruwer and Holloway also differed. While Holloway was convinced of the merits of an internationally equilibrating laissez-faire system, Bruwer had no such belief. For him the international capitalist who had destroyed the Boer Republics (from 1899 until 1902) were a part of the problem, not the solution. Bruwer was deeply distrustful of "selfish" individualist, laissez-faire thinking. He was acquainted with the works of the English Mercantilist Thomas Mun, the German National Economist Friedrich List, as well as Thomas Aquinas and Aristotle before them. He flirted with embracing the Nazis and the Soviets in their anti-laissez-faire experiments, particularly between 1932 and 1936. He praised both Hitler and Stalin in his 1934 book.

With their very separate temperaments and theoretical outlooks, the monetary crisis of 1931-32 was destined to have a very different effect on the careers in the state of Bruwer and Holloway. As a nation just graduating from periphery to semi-peripheral country status, the careers of civil servants and politicians in the economic ministries, who accommodated the sound money, laissez-faire orthodoxy of the hegemon, was going to be easier. Holloway found himself agreeing with Havenga on maintaining the gold standard. In addition, his discipline in not taking public positions without the approval of his superiors, must have been greatly appreciated by a government constantly having to defend itself from "anonymous" musings in the press by one of its own senior civil servants, Bruwer. These qualities, and many others explored in this thesis, explains how trusted Holloway became in the corridors of power for well over twenty years. Given the influence of the Milner men, and a National Party lacking in confidence, it also explains the ruthless treatment of Bruwer. And yet one cannot help feeling sorry for the fate of Bruwer. His nationalist instincts for sovereignty, for the development of industry in South Africa and to escape the imperialist clutches of London, were

very much aligned with those of the electorate that voted for the National Party and put Hertzog and Havenga in power.

Firstly, he found himself butting heads with Milner men in the Treasury, British appointed civil servants in the all-important Finance Ministry who were determined to advance British, rather than South African nationalist agendas. His final undoing was opposing an inexplicable decision of the government to remain on the gold standard, when it was clearly causing great harm to the real economy, particularly to farmers. And so, he was caste out of the Afrikaner establishment for twenty-two and a half years. Even after his rehabilitation as Chairman of the Rand Water Board in 1955, his attempts to get the Nationale Afrikaanse Letterkundige Museum to assist in publishing his memoirs failed, despite the honey-talk of its director[691]. Even decades after the 1931-32 monetary crisis, the Afrikaner establishment did not want published this no-holes-barred account of how their own National Party-led government had accommodated the British and had caused economic hardship with their monetary policy from September 1931 until December 1932.

Bruwer and Holloway's evolution of thought is interesting, particularly Holloway's as he was more active in monetary policy debates after 1934, than Bruwer. Holloway moved from an orthodox sound money position up until 1932, towards strident advocacy for what became Article IV, Section 7 of the Bretton Woods Agreement, which allowed for a variation of the gold price. He fought for, and secured Article V Section 6(b)[692], which allowed for gold producers to sell their commodity at the highest price. But as the mercantilists that Bruwer read would have told Holloway, there is no such mechanism as an internationally equilibrating laissez-faire system. The system that existed in reality was run by institutions located in specific geographies. And these institutions answered to those in power. The Bank of England had a close relationship with the British government. Wall Street was close to the pre-FDR governments in the United States, and the FDR administration was determined to advance an American national interest.

[691] Bruwer Papers, Private Collection, previously at Mymering farm, Ladismith District, letters from P J Nienaber to Bruwer dated 13 November 1979 and 16 January 1980.

[692] J. E. Holloway Papers, Archive for Contemporary Affairs, University of the Free State, PV515, File 1/B1/4, Article by J E Holloway entitled *The Failure of the Bretton Woods System* dated 7 December 1978, page 2.

Holloway's advocacy for a variable gold price within the Bretton Woods system, was a concession to the need for a variable money supply, whether he was willing to acknowledge that, or not. In his advocacy for this variable gold price standard, Holloway had moved from his fixed sound money position, in the direction of development money thinking. When the IMF refused to use Article IV, Section 7 to increase the price of gold, Holloway retreated back into his orthodox sound money position, but now with a stronger emphasis on individual libertarianism.

Dominant theoretical paradigms are usually shaped by the economic history that preceded them. When South Africa was negotiating the transition from apartheid in the early 1990s, the dominant economy and monetary policy model was the Washington Consensus, including inflation targeting. At that stage, the ideological battle was between a triumphant neoliberal West, and a defeated Marxist Soviet Union. In their attempt to make sense of the world, western countries began to view economic history as having started with the problem of the stagflation of the 1970s, and ended with the collapse of the Soviet Union, and the economic growth of the 1990s. Many decision-makers in the west are still stuck in this paradigm.

But, thankfully, Francis Fukuyama (1992) was wrong about the implications of the political revolutions of 1989/90 and history has not ended. In the last forty years, there have been various examples of countries which have combined the theoretical paradigm of Bruwer, with the diplomatic accommodation of the core countries, that was Holloway's skill.

Bruwer, Holloway and others within the South African state, used the opportunity presented by the declining power, Britain, being in a weakened and disorientated position, to "seize the chance" for development (Wallerstein; 1979: 77). In terms of hegemonic power, the unipolar world was giving way. It was clear that the United States would be the next superpower, but from the South African standpoint, for most of the period 1914-50 it was not yet ready to play that role.

When the British handed political control to Afrikaner-led government in 1910, they had no intention of handing over economic control. The Treasury's entire senior staff were "Milner men", and every ounce of South African gold mined, went unrefined, to the Bank of England. In its early days in the 1920s, the spare reserves of the SARB were held on the London market. South Africa had very little secondary industry. But Bruwer, Holloway and others in the South

African economy took advantage of the crises in the northern hemisphere, starting in 1914 and ending with WWII, to develop industry, strengthen the position of the gold mines and the state, and improve tax collection and reserves. As a result, South African was in a considerably stronger position after WWII than after WWI.

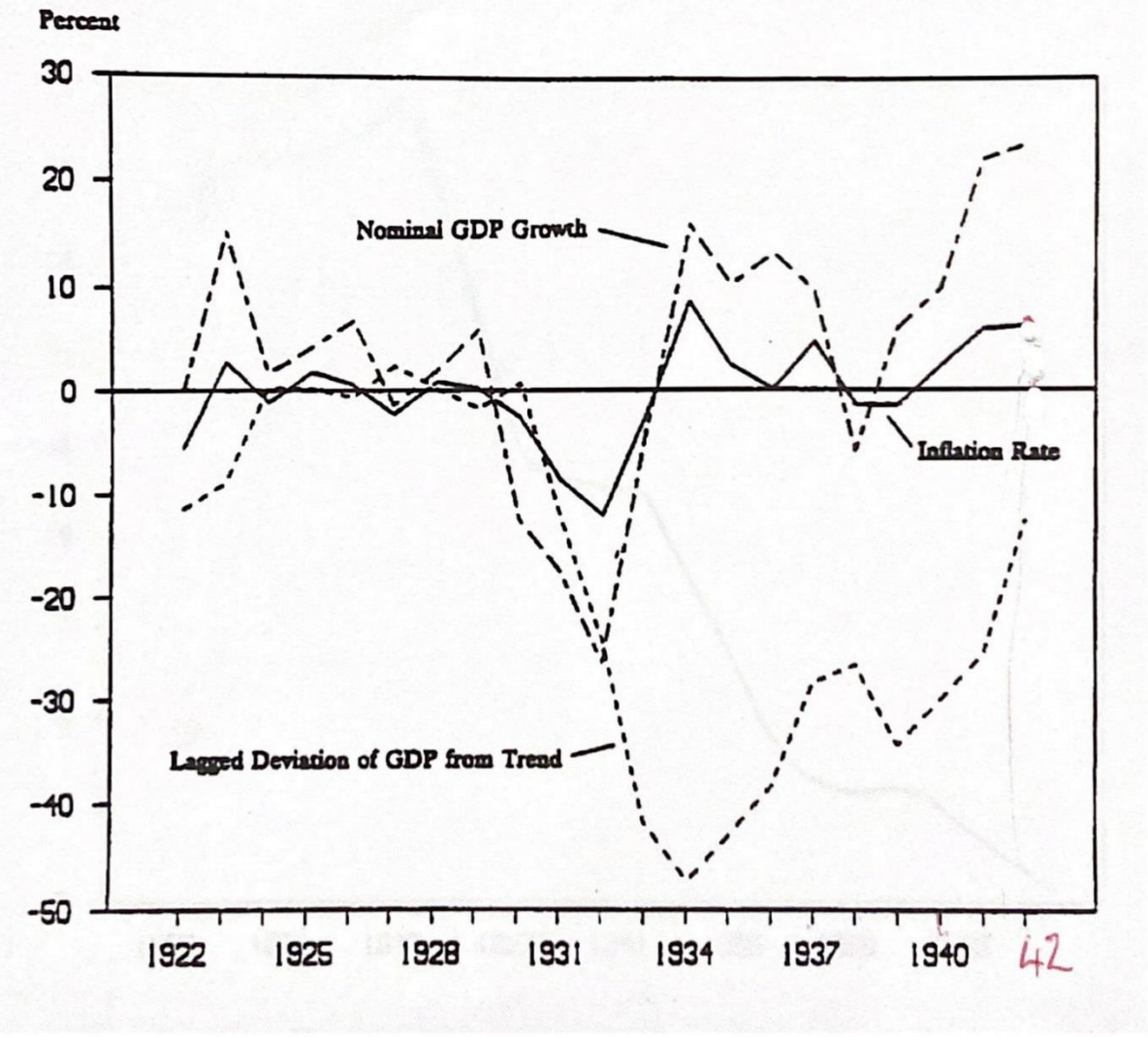
The world is currently in crisis. The transfer of productive power from the United States, where it was in 1950, to East Asia, particularly China, is now a presenting reality. Wall Street is yet to be dethroned, but if the productive economy continues to shift to the East, this decline is surely a matter of time. Like the period 1914-1950, the unipolar world which looked so impregnable only thirty years ago, is now giving way. Like 1914 – 1950, a multipolar world now exists. In the multipolar world of 1914-1950, South Africa benefited from being far from the chaos in the northern hemisphere, between WWI and WWII. Bruwer and Holloway were able to maintain dialogue with thinkers and representatives from both the declining British centre of power, and the rising American one and worked on developing South Africa and strengthening her sovereignty.

Opportunities to seize the chance, claim economic sovereignty and development, do not always present themselves. With the global economy in crisis, with America and Chinese economic competition heating up, and a COVID19 pandemic thrown in for good measure, surely now is the time for a new economic leadership to seize the chance.

FIGURES, TABLES AND ANNEXURES

FIGURE 1

INFLATION AND OUTPUT IN THE INTERWAR ERA



Source: Figure 1 from Christina Romer (1996) for the United States of America

Figure 2

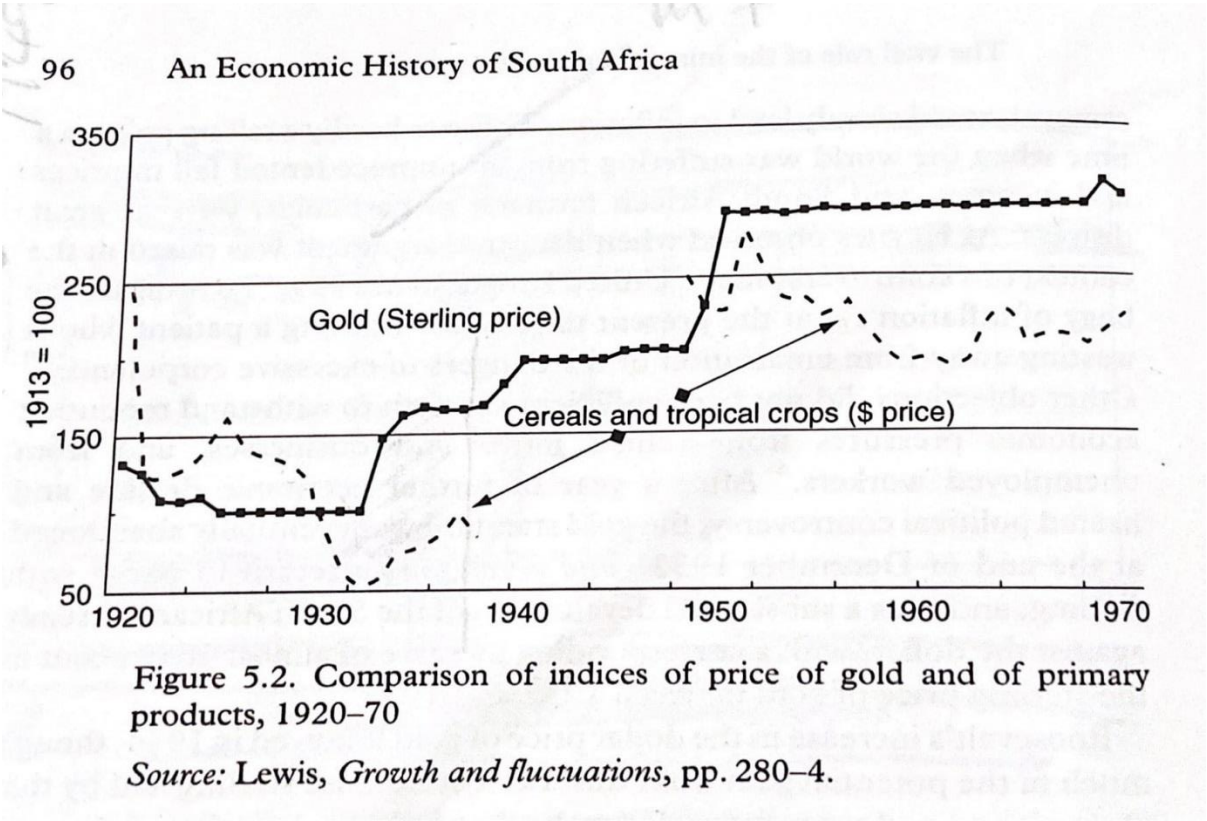
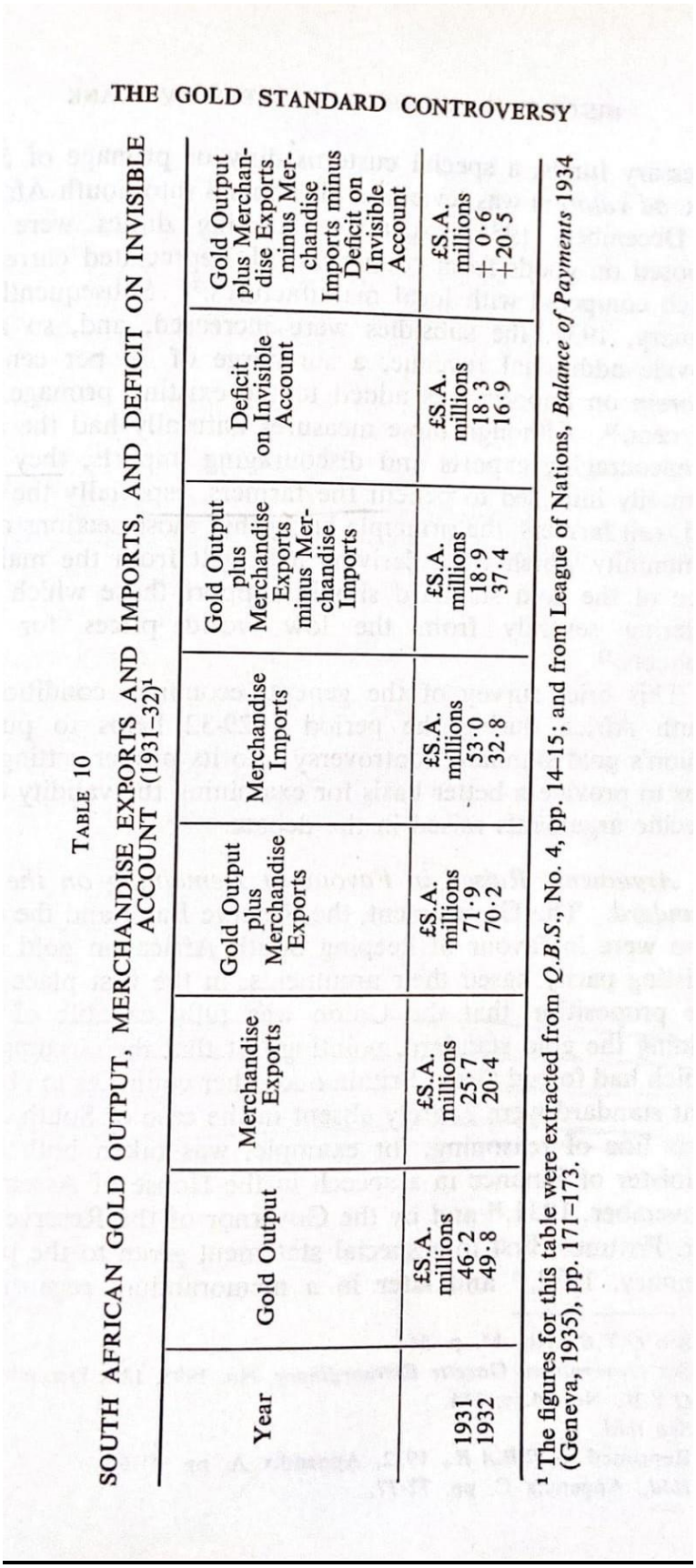


Figure 5.2. Comparison of indices of price of gold and of primary products, 1920–70

Source: Lewis, *Growth and fluctuations*, pp. 280–4.

Source: Figure 5.2 from Charles Feinstein (2005)

Table 3



THE GOLD STANDARD CONTROVERSY

TABLE 10

SOUTH AFRICAN GOLD OUTPUT, MERCHANDISE EXPORTS AND IMPORTS, AND DEFICIT ON INVISIBLE ACCOUNT (1931–32)[1]

Year	Gold Output	Merchandise Exports	Gold Output plus Merchandise Exports	Merchandise Imports	Gold Output plus Merchandise Exports minus Merchandise Imports	Deficit on Invisible Account	Gold Output plus Merchandise Exports minus Merchandise Imports minus Deficit on Invisible Account
	£S.A. millions	£S.A. millions	£S.A. millions	£S.A. millions	£S.A. millions	£S.A. millions	£S.A. millions
1931	46·2	25·7	71·9	53·0	18·9	18·3	+ 0·6
1932	49·8	20·4	70·2	32·8	37·4	16·9	+20·5

[1] The figures for this table were extracted from *Q.B.S.*, No. 4, pp. 14–15; and from League of Nations, *Balance of Payments* 1934 (Geneva, 1935), pp. 171–173.

Source: De Kock (1954: 149)

Table 4

TABLE 11

RESERVE BANK'S HOLDINGS OF GOLD AND FOREIGN EXCHANGE (1931–32)[1]

Date	Gold	Foreign Bills	Other Foreign Assets[2]	Gold and Foreign Exchange
	£S.A.	£S.A.	£S.A.	£S.A.
31 Mar. 1931	7,132,000	7,751,000	665,000	15,548,000
30 June 1931	6,445,000	6,690,000	492,000	13,627,000
31 Aug. 1931	6,425,000	5,825,000	744,000	12,994,000
30 Sep. 1931	6,762,000	5,527,000	82,000	12,371,000
31 Oct. 1931	6,059,000	—	426,000	6,485,000
30 Nov. 1931	7,557,000	36,000	121,000	7,714,000
31 Dec. 1931	8,104,000	41,000	—	8,145,000
31 Mar. 1932	6,521,000	63,000	127,000	6,711,000
30 June 1932	7,937,000	13,000	185,000	8,135,000
30 Sep. 1932	6,512,000	—	115,000	6,627,000
31 Dec. 1932	7,347,000	—	152,000	7,499,000

[1] The figures for this table were extracted from *Q.B.S.*, No. 1, pp. 10–11.
[2] The "Other Foreign Assets" consisted of balances with central banks and money employed in the London market. In addition, the Bank held, at the 21st September, 1931, £1,328,000 in Union Government stocks domiciled in London, of which £110,000 was sold in October, 1931, and the remainder transferred to the South African register, as mentioned previously in the text.

Source: De Kock (1954: 177)

Table 5

TABLE 12

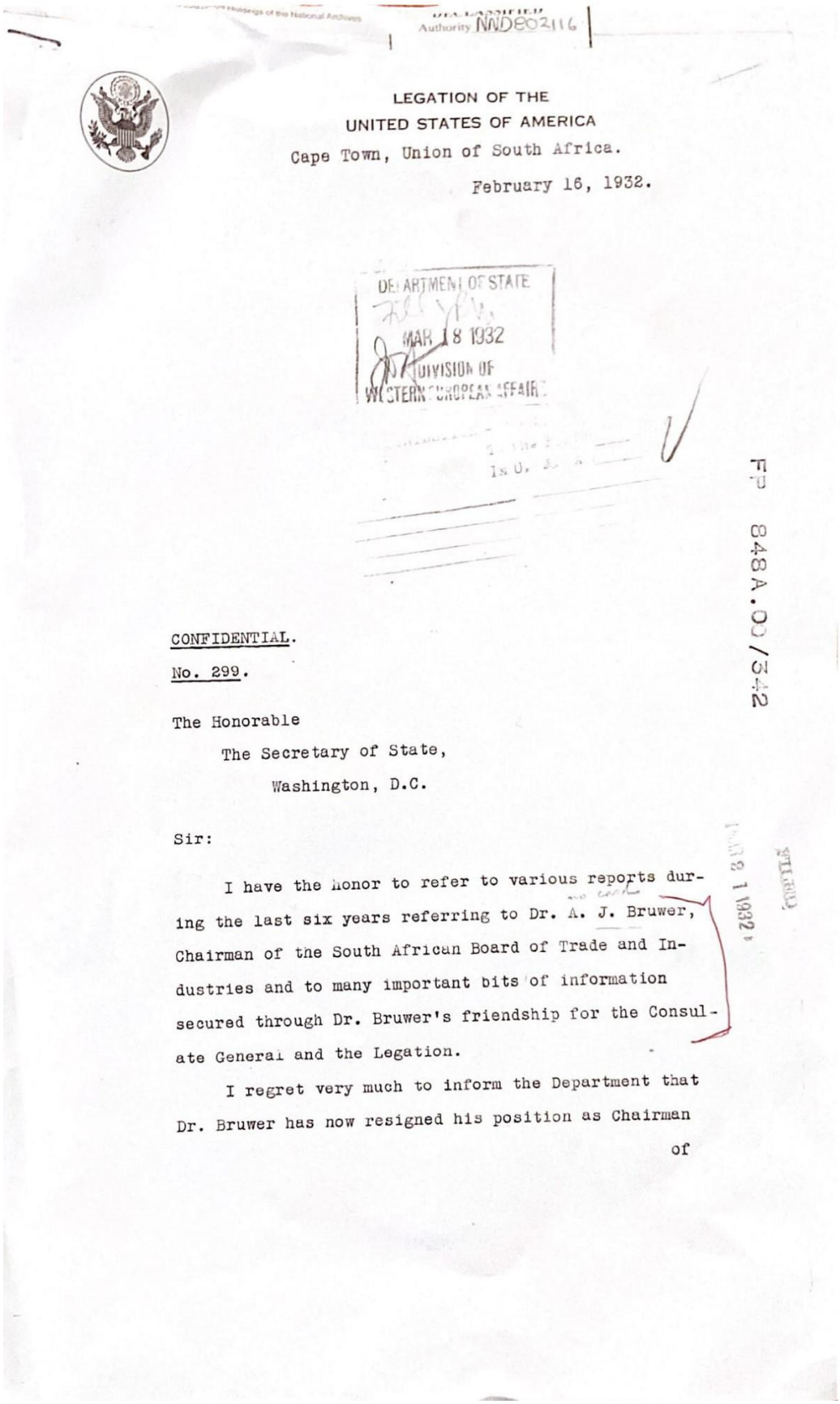
QUANTITY OF MONEY AND COMMERCIAL BANKS' DEMAND DEPOSITS, DISCOUNTS AND ADVANCES AND RATIOS OF CASH RESERVES AND OF DISCOUNTS AND ADVANCES TO LIABILITIES TO PUBLIC IN UNION (1929–32)[1]

Date	Quantity of Money[2]	Commercial Banks'			
		Demand Deposits	Discounts and Advances	Ratios to Liabilities to Public	
				Cash Reserves	Discounts and Advances
End of	£S.A. millions	£S.A. millions	£S.A. millions	%	%
1929—March	49·7	33·5	45·6	13·6	74·2
June	47·6	32·3	49·8	13·5	81·1
September	45·9	31·0	50·8	14·2	83·0
December	46·1	30·9	51·1	14·2	83·5
1930—March	44·7	29·4	47·3	14·0	80·6
June	42·4	28·2	46·8	13·0	76·8
September	40·9	27·3	46·4	12·8	74·2
December	42·5	28·2	44·5	12·6	69·3
1931—March	44·3	28·8	43·3	12·2	68·5
June	44·2	29·0	43·2	11·6	68·5
September	40·3	27·2	46·0	11·6	74·4
December	39·5	24·8	45·6	12·2	79·6
1932—March	37·6	23·9	42·8	12·6	80·3
June	37·4	24·6	40·8	12·8	73·8
September	35·9	22·9	39·4	11·7	73·0
December	36·6	23·5	40·1	12·7	73·0

[1] The figures for this table were extracted from *Q.B.S.*, No. 2, pp. 6–9 and 13.
[2] As calculated by the Reserve Bank, i.e. including the commercial banks' demand deposits in the Union, the Reserve Bank's Government and "Other" deposits, the Reserve Bank's note liabilities less its own notes in and outside the Union held by the commercial banks, and coin outside the banking system, but not fixed or saving deposits.

Source: De Kock (1954: 181)

Annexure 1: Cable from Ralph J. Totten to Secretary of State, 16 February 1932



Authority NND802116

LEGATION OF THE
UNITED STATES OF AMERICA
Cape Town, Union of South Africa.

February 16, 1932.

DEPARTMENT OF STATE
MAR 18 1932
DIVISION OF
WESTERN EUROPEAN AFFAIRS

FP 848A.00/342

CONFIDENTIAL.

No. 299.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

I have the honor to refer to various reports during the last six years referring to Dr. A. J. Bruwer, Chairman of the South African Board of Trade and Industries and to many important bits of information secured through Dr. Bruwer's friendship for the Consulate General and the Legation.

I regret very much to inform the Department that Dr. Bruwer has now resigned his position as Chairman of

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of the Board of Trade and Industries. It will be remembered that this gentleman secured his Bachelor's, Master's and Doctor's degrees in American Universities and was known to be rather aggressively anti-British and pro-American. Both of these proclivities had at times proven a source of minor embarrassment to the Government.

Some two years ago Dr. Bruwer differed with other authorities materially in connection with the policy of the South African Reserve Bank. He rather indiscreetly made his complaints in this particular known to the general public with the result that there began a slight breach in his relations with the head of his Department, the Minister of Mines and Industries. Later his very pronounced opinions regarding economic matters caused a difference of opinion between himself and the head of the Union Iron and Steel Corporation of which he was a Director. His relations with Mr. Fourie, Minister for Mines and Industries since 1929, gradually became so strained that it was impossible for them to work together. In addition to these things he is a pronounced republican and a leader in the 'Young Afrikaner' movement which feels that General Hertzog has ceased to represent the real Dutch South African feeling and to look more to Dr. Malan, or even to Dr. Steenkamp as their future leader.

The result of all this has been that gradually Dr. Bruwer has been ignored by the Minister and the Government in general as Chairman of the Board of Trade

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Trade and Industries. His functions have bit by bit been taken away from him and given to other Members of the Board. Recently this policy had reached a point where he no longer had any authority, or was ever consulted in regard to matters relating to the Board. Heads of other Departments were instructed not to correspond directly with Dr. Bruwer on official matters. His position finally became so difficult and embarrassing that he was forced for the sake of his self respect to resign, which he did in a letter to the Minister which was made public on February 10, 1932.

Since his resignation Dr. Bruwer has become violently anti-Government and is publishing a series of articles in the newspapers condemning the Government in regard to their economic and financial policies, especially the management of the Reserve Bank, the conduct of the Iron and Steel Corporation and the remaining on the gold standard. While Dr. Bruwer is violently anti-Government it is not believed that he will ever become affiliated with the South African Party, but will rather work with the discontented element in the Nationalist Party and possibly with Dr. Steenkamp.

I regret very much Dr. Bruwer's break with the Government as he was a staunch friend of the United States and of this Legation from whom useful information could be obtained on all kinds of political and economic matters.

Respectfully yours,

Ralph J. Totten

(Copy for the American)
(Ambassador, London.)
In Quintuplicate.
800.
RJT/H.

(4 carbon copies FP)
F.P.

Annexure 2: Letter from Keynes to Holloway, 10 July 1944

UNITED NATIONS MONETARY AND FINANCIAL CONFERENCE

10th July 1944.

Dear Dr.Holloway,

I have just managed to find time to read the statement you made on July 7th. I feel I must write to say how much I agree with it. It seems to me that you were justifying the Fund precisely on the right lines. It was a very helpful statement and I hope it will have good publicity in South Africa.

I wish I had had time before now to have a proper talk with you. But my life is becoming an insoluble jig-saw puzzle to fit things in.

Sincerely yours,

Keynes

Dr.J.E.Holloway.

P.S. There is a matter about which I shall be rather glad to have a few minutes with you some time today. I shall be grateful if you can, if it suits you, come to see me in Room 219 at, say, 6.30 p.m.

31/07/2014 10:37

Annexure 3: Letter from Holloway to Keynes, 10 July 1944

SOUTH AFRICAN DELEGATION.

10th July, 1944.

Dear Lord Keynes,

Many thanks for your note of today's date, and the appreciative remarks you make about my statement, which coming from a man who vitally influenced my direction of thought on economic matters as long as thirty years ago, is highly valued by me.

As I informed Snelling this morning it will give me much pleasure to call on you in Room 219 at 6.30 this evening.

Yours sincerely,

d Keynes,
irman,
ted Kingdom Delegation.

31/07/2014 10:37

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14. N. C. Havenga Papers - National Archive, Pretoria

15. B. Hertzog Papers - National Archive, Pretoria

16. J. E. Holloway Papers - National Archive, Pretoria

17. Treasury Papers - National Archive, Pretoria

18. J. E. Holloway Papers - Archive for Contemporary Affairs, University of the Free State, Bloemfontein

19. A. J. Bruwer Papers - Archive for Contemporary Affairs, University of the Free State, Bloemfontein

20. Various newspapers - The National Library, Cape Town

21. Personal papers of J. E. Holloway in a home in Bloemfontein

22. Personal papers of J. E. Holloway on what was his farm in the district of Haenertsburg, Limpopo Province

23. Personal papers of A. J. Bruwer on what was his farm, Mymering, in the district of Ladismith, Western Cape Province

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