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Resumption of Gold
Payments by the Union
of South Africa.

Report by
E. W. Kemmerer
& G. Vissering
& Evidence.

(U.G. Nos. 12 & 13, '25)

UNION OF SOUTH AFRICA



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REPORT

SUBMITTED BY

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AND

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ON THE

Resumption of Gold Payments

BY THE

Union of South Africa

PRETORIA

THE GOVERNMENT PRINTING AND STATIONERY OFFICE

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TERMS OF REFERENCE

“To visit the Union and investigate the question of the restoration of the Gold Standard by the Union independent of the United Kingdom.”

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THE HONOURABLE THE MINISTER OF FINANCE,
PRETORIA.

SIR,

1. Your Commissioners were invited by your cablegram of the 8th October last to the High Commissioner for the Union of South Africa in London—

“To visit the Union and investigate the question of the restoration of the gold standard by the Union independent of the United Kingdom.”

It was indicated to them that the inquiry should not involve a stay in South Africa of more than a month, and that it was desirable for it to be concluded before Parliament met in January.

2. Professor Kemmerer cabled his acceptance of the invitation on 13th October, and left Princeton, New Jersey, on 11th November, arriving in London on the evening of Tuesday, 18th November. Dr. Vissering's acceptance was in Sir Edgar Walton's hands on 18th October, and Dr. Vissering arrived in London from the Netherlands on Sunday, 16th November, having previously visited London for a few days, in connexion with his mission, in the latter part of October.

3. During your Commissioners' stay in London they took the informal testimony of Professor Edwin Cannan, LL.D., Mr. Oswald T. Falk, C.B.E., Colonel R. A. Johnson, C.B.E. (Deputy Master and Comptroller of the Mint), Mr. William Mosenthal, Sir Ernest Oppenheimer, Sir Lionel Phillips, Bart., Mr. Joh. Postmus (General Manager, Netherlands Bank of South Africa), Mr. L. G. Roussin, C.M.G., late Financial Secretary to the Government of Egypt, and Sir Henry Strakosch, K.B.E.

4. Your Commissioners also had interviews and discussions with the following gentlemen:—Sir Charles S. Addis, K.C.M.G., the Hon. R. H. Brand, C.M.G., Mr. R. G. Hawtrey, C.B., Mr. Francis W. Hirst, Sir Robert Kindersley, G.B.E., Mr. Joseph Kitchin, Mr. Miller, of *The Times* newspaper, Sir O. E. Niemeyer, K.C.B., the Right Hon. Montagu C. Norman (Governor, Bank of England), Sir Felix Schuster, Bart., Lord Swaythling and Mr. E. L. Franklin (of Messrs. Samuel Montagu & Company), and Mr. P. Vuyk (General Manager, Transvaal Commercial Bank, Amsterdam).

5. Leaving London for South Africa on 21st November, your Commissioners reached Capetown on 8th December,

where your telegram was received requesting them to come to Pretoria by the earliest train.

6. Prior to their arrival in South Africa, your Commissioners had time to study the reports of the Gold Conferences held in Pretoria in 1919 and 1922, and the reports and hearings of the Select Committees of the Union House of Assembly of 1920 and 1923, and other documents and statistics which they had collected or which were supplied to them before they left England.

7. On 10th December, after their interview with you, the following general invitation was issued through the Press:—

“It is notified for public information that Professor Kemmerer and Dr. Vissering, who have been appointed to advise the Government on the question of the resumption of gold payments on 1st July next, desire to obtain the views of persons interested.

“Such persons are accordingly invited to forward memoranda, stating briefly their views on the points which they wish to be considered, to Mr. J. J. I. Middleton, Treasury, Pretoria, at the earliest possible date, but in no case later than the 24th instant.”

8. In response to this invitation, ten persons submitted written statements. In addition to the public invitation, your Commissioners invited fifty persons in South Africa to appear before them and give oral testimony, preceded, where possible, by written statements. Of the fifty persons invited, eleven, namely, Messrs. Fred. W. Bell, Thos. B. Herold, Mr. R. A. Hockly (President, S.A. Agricultural Union), Hon. H. C. Hull, Major Hunt (President, Transvaal Agricultural Union), Hon. J. W. Jagger, Professor Leslie, Mr. Cosmo Monkhouse, F.I.A. (General Manager, S.A. Mutual Life Assurance Society), Mr. A. A. Moore (Secretary, Reduction Workers' Association), Mr. Donald Reich (Secretary, Mine Workers' Union), and Mr. I. W. Schlesinger, were, for various reasons, unable to appear. A written statement was received from Mr. Fred. W. Bell, and also from Major Hunt representing the Transvaal Agricultural Union.

9. Your Commissioners desire to record their highest appreciation for the ready assistance and for the helpful co-operation which they received from all witnesses, who in most cases were required to attend at very short notice at times probably extremely inconvenient to themselves. Your Commissioners took evidence during three days in London, and in South Africa during fourteen days in December, and present the following report, which embodies their unanimous conclusions on the subject of their inquiry.

10. Your Commissioners wish to express their sincere appreciation of the splendid co-operation they have received from officials of the Union Government, and particularly from Mr. J. J. I. Middleton, the Under-Secretary for Finance, who was with the Commissioners in London and on the trip to South Africa, and who has given continuous and most efficient assistance throughout all their work; also to Mr. C. W. Pearsall, Senior Clerk in the Office of Census and Statistics, who has rendered the Commissioners invaluable assistance as Secretary to Professor Kemmerer. Your Commissioners also wish to record their appreciation of the valuable assistance they have received from Dr. H. L. de Beaufort, Secretary to Dr. Vissering.

11. Under present conditions the problem practically narrows itself down to the question: Should South Africa, in determining now her future monetary policy, decide to tie up definitely with sterling, hoping that sterling will return to the gold basis soon, but being prepared to follow sterling wherever it may go, or should she decide to tie up definitely with gold. For some time the South African pound has been considerably more valuable than the pound sterling, but not until within the last few days has it been, as measured by exchange rates, as valuable as the gold sovereign. Although bearing the name of a pound, the South African monetary unit has been for several years, both in its gold value and in its value as measured by its purchasing power over commodities, a different pound from the pound sterling. It has responded very incompletely and with substantial lags in time to the ups and downs in the value of sterling. This fact has led to confusion and misunderstanding among bankers, merchants, and the public generally. Your Commissioners believe that South Africa is too small a country, from an economic point of view, to have a monetary standard so independent of the monetary standards of other countries, and that it is clearly to South Africa's interest to tie up definitely either with sterling as Egypt has done, or with gold as Canada is doing. The question is: Which?

12. It has been suggested that South Africa might tie up to sterling, with the condition that, should sterling depreciate in its gold value further than a certain point, say, for example, further than 10 per cent. below gold parity, South Africa should break with it at that point and either wait there for sterling to come back, or then to begin to deflate at once the South African currency towards gold parity. Your Commissioners do not believe that such a plan would be desirable, and they doubt if it would be carried through if once

adopted should sterling depreciate below the limit fixed. This plan, as contrasted with the early adoption of the gold standard, would increase the probability of wide fluctuations in the value of the South African pound—10 per cent. is about a year and a half's interest in South Africa—and would thereby increase the uncertainties and the risks of South African business. It is improbable that, if South Africa should follow sterling down 10 per cent., she would be willing to break with sterling at that point should sterling decline further. The same arguments and sentiments that have prevailed in the past, and that would be determining such a decision in the present, would be likely to prevail in the future. Professor Edwin Cannan recently well said:—"As usual, when currency has once become depreciated, it is a case of 'jam yesterday and jam to-morrow, but never jam today.'" (*Economic Journal*, December, 1920, p. 524.) It is usually exceedingly difficult to stop an inflation movement after it has once gained momentum.

13. If, however, the plan were adopted, and if sterling should depreciate below the 10 per cent. limit, and if the plan were then carried out, South Africa would find herself in the awkward position of having a monetary standard that was neither gold nor sterling—her own little standard, different from that of any other country of the world—and she would be confronted with the problem of either immediately undergoing the pains of deflating towards gold parity, or of temporarily debasing her monetary unit to the 10 per cent. gold discount level, while awaiting the return of sterling, and then, when and if sterling should come back to this level, of deflating with sterling to gold parity. This might well take a long time. Your Commissioners see no advantages in such a plan at all commensurate with the risks of serious evils that its adoption would involve.

14. At the time of writing (3rd January, 1925) the London-New York telegraphic transfer rate is quoted as 4.75, or only 2.2 per cent. below gold parity; the South African telegraphic transfer buying rate is $3\frac{1}{2}$ per cent. discount and the selling rate is $2\frac{3}{8}$ per cent. discount, making the mean rate between the buying rate and the selling rate 3.06 discount; so that the South African pound to-day is 0.86 per cent. above gold parity. It has, in fact, been within 2 per cent. of gold parity ever since your Commissioners left London in the latter part of November.

15. The present high sterling-dollar rate is the highest rate quoted since 20th March, 1919, when the rate was "unpegged." The London-New York rate advanced almost continuously throughout the year 1924, beginning with an average rate for the month of January, 1924, of 4.259, or a rate of about $12\frac{1}{2}$ per cent. below gold parity and of about 10 per cent. below the rate of to-day. If the rate should advance half as rapidly during the next six months as it has advanced during the past year, it would be at gold parity before 1st July. The experiences of the

year 1924, the improved situation generally throughout the world as a result of the settlements growing out of the Dawes Committee Report, and the declared policy of Great Britain to carry out the recommendations of the Cunliffe Committee, are all encouraging signs of a speedy return to gold parity. Your Commissioners hope and expect to see sterling at par with gold by 1st July next. In that contingency the situation in South Africa would be practically the same whether she should now decide to tie up with sterling or to tie up with gold.

16. But while expecting sterling to return to gold parity within the next six months, your Commissioners would not feel justified in basing their recommendations on the assumption that such a return will take place. They recall that the dollar-sterling rate, after advancing from the low figure 3.56 (29th July, 1921) almost continuously to the high figure of 4.72 (21st February, 1923), an advance of 32½ per cent. in about 19 months, and after the public had largely made up its mind that sterling was to return soon to a gold basis, suddenly turned around and declined from 4.72 (21st February, 1923) to 4.28 (17th November, 1923), a decline of 9¼ per cent. in 9 months. This fact, together with the great instability of the sterling-dollar rate during the past five years, and the many failures of exchange prophets during that period, are calculated to make one very modest in one's prophecies as to what will happen to sterling during the year 1925. It is sufficient to say if sterling returns to parity by 1st July next, South Africa's problem will have been largely solved.

17. In accordance with present law (Act No. 22 of 1923), South Africa will automatically return to the gold standard 1st July, 1925, unless legislation to the contrary is passed between now and that date. Perhaps in no other field is the old adage "to be forewarned is to be forearmed" the embodiment of a sounder philosophy than in the field of monetary reforms. Dangers cease to be dangers when they are anticipated and when their probable effects can be discounted. The public of South Africa ought to know at the earliest possible date what course is to be taken 1st July, so that they can prepare for it, and this is particularly true of that part of the public upon whom the responsibility will largely fall for making preparations for the resumption of gold payments and for maintaining the gold standard after it has once been re-established. For this reason your Commissioners believe that a decision should be reached at an early date and that a public announcement of the decision should be made promptly.

18. If a decision is to be arrived at now and to be announced promptly to the public, South Africa should be ready to stand by that decision, regardless of what may happen to sterling during the next six months. In the interest of the public, the South African Government should take whatever risk may be involved and assume full responsibility to support the carrying out of the decision.

19. Conditions in South Africa at the present time are favourable to a prompt return to the gold standard—more favourable than they have been at any time since gold payments were suspended (15th December, 1920). For two months and over the South African pound, as measured by the banks' telegraphic transfer rates on London—the mean between the buying rate and the selling rate—taken in connexion with the dollar rate in London, has been very near gold parity, having never been below 2 per cent. of gold parity since the middle of November last. At the time of writing (3rd January, 1925), as previously noted, it is approximately 0.86 per cent. above gold parity, and if a rate so favourable as this continues long, South Africa may find itself practically back on a gold standard with gold coin in circulation long before 1st July.

20. Money is worth what it will buy, and therefore the best test of the value of money is to be found in price index numbers. Fortunately, South Africa possesses for the period 1910 to the present time good index numbers covering wholesale prices of some 188 different commodities. These index numbers show that the wholesale price level here (excluding the price of gold) is lower in relation to the price level immediately preceding the European War than is the price level in any other country of the world for which we have comparable statistics. The following table shows the wholesale price index numbers, for the latest month of 1924 for which figures are available, for twenty different countries. The countries are arranged in the numerical order according to which their currencies, as evinced by their respective price levels, have been deflated toward their pre-war value* :—

1. South Africa	133 (October).
2. Egypt	148 (September).
3. United States	149 "
4. Canada	154 "
5. Netherlands	159 "
6. Switzerland	160 (October).
7. Australia	162 (September).
8. Sweden	163 "
9. United Kingdom (Board of Trade)	167 "
(<i>Statist</i>)	166 "
10. Dutch East Indies	174 (July).
11. British India	179 (September).
12. New Zealand	181 (August).
13. Spain	184 (September).
14. Japan	206 "
15. Denmark	234 "
16. Norway	275 "
17. France	486 "
18. Belgium	550 "
19. Italy	580 "
20. Czecho-Slovakia	997 "

* Federal Reserve Bulletin of the United States of America, November, 1924 (page 882).

21. South Africa, it will be noted, heads the list. As measured by her price index numbers, South Africa is to-day deflated more in comparison with the situation immediately preceding the war than gold standard countries like the United States, or than countries whose exchanges have been for some time practically at par with gold, like Canada and the Netherlands. The best evidence available therefore seems to show that South Africa's currency is already deflated not only to the gold standard level, but probably somewhat below. In this connexion it is significant that the South African wholesale price index number rose from 125 for July, 1924, to 133 for October. The return to the gold standard in South Africa would probably require therefore no more deflation. That disagreeable job has already been done during the last four and a half years.

22. It has been claimed that South Africa's price level immediately preceding the European war was abnormally high in comparison with the years just before when compared with other countries. Your Commissioners have made comparisons of the index numbers of South Africa for the years 1910 to 1913 with those of a number of other countries and do not find that the evidence supports this claim. In this connexion it should be added that Mr. C. W. Cousins, who was Director of the Bureau of Census and Statistics of South Africa for the seven years ending 1924, stated in his testimony that he did not believe that the year 1913 was abnormal in this respect in South Africa when compared with other countries.

23. A third favourable factor is South Africa's present strong gold position. The Reserve Bank at the time of writing is carrying the large gold reserve of £10,775,746, representing 64 per cent. of its outstanding notes and deposits combined. The two principal commercial banks in South Africa are holding heavy sterling balances in London. The Pretoria Branch of the Royal Mint was opened January, 1923, and began issuing silver coin in June of that year. It has a capacity for coining 12,000,000 sovereigns a year, and, with few additions to plant and equipment, could increase that capacity to 24,000,000 sovereigns. South Africa can therefore now replenish her supply of gold coins at short notice by simply diverting a small stream from her annual outflow of gold—an outflow which is now back to practically pre-war volume—to her local mint. She no longer needs to wait until gold can be coined in London and shipped to her shores, and, being the premier gold-producing country of the world, producing about three-fifths of the total world's annual product, she can tap the supply at its source, and no country, by embargoes or otherwise, can prevent her from getting promptly all that she is willing to pay for.

24. The fact that the year 1924 has been a successful year for the gold mines, and that the agricultural prospects at the present time in South Africa are excellent, are both favourable to an easy return to the gold standard.

25. If, on the other hand, South Africa should now decide to tie up to sterling, and if sterling should depreciate again as a result of inflation in Great Britain, South Africa would be practically compelled to follow sterling down no matter how low it should go and how long it should continue to decline, and then, later, to follow it back to gold parity, if it should come back in harmony with the declared policy of Great Britain as expressed in the Cunliffe Committee's Report. This would mean that South Africa would be compelled to undergo again all the evils of inflation and then subsequently again to go through all the evils of deflation. Her experiences during the long inflation period, culminating about the middle of 1920, and her subsequent four years and more of deflation experiences, are too recent to make necessary here any long description of the hardships of inflation and deflation. It is perhaps sufficient to recall that a widely fluctuating monetary unit brings a spirit of uncertainty into all business transactions, encourages dangerous speculation, and, with blind injustice, robs one class of people in the community for the benefit of another. When the currency is depreciating and the price level is therefore rising, it is the creditor who is robbed for the benefit of the debtor, the bondholder for the benefit of the stockholder, the labourer for the benefit of the capitalist or the consumer; the insurance-policy holder, the savings bank depositor, and the pensioner for the benefit of stockholders and mortgagors. When the currency is depreciating the cost of living usually advances more rapidly than wages with resulting hardships to wage-earners, labour discontent, and strikes for increased wages. In connexion with the discontent that usually results from inflationary movements, the French have a saying, "The guillotine follows the paper-money press—the two machines are complementary one to the other." When, on the other hand, the currency is appreciating in value and prices are falling, namely, during periods of deflation, the debtor suffers for the benefit of the creditor, the stockholder for the benefit of the bondholder, the farmer or the home buyer with a mortgage on his place for the benefit of the money-lender, the employer and the capitalist for the benefit of the labourer. When the currency is appreciating, wages usually lag behind the cost of living on the decline, with the result that employers find themselves under economic pressure to reduce wages, as the prices of their products are declining, and also to discharge employés. Such reductions and threatened unemployment are usually resisted by labouring men, with resulting labour discontent and strikes. Labour troubles during inflation and labour troubles during deflation are the rule.

26. Both inflation and deflation have their bright spots, but the predominating colour of both is black. Within the last ten years most countries of the world have experienced both, and the world now struggles for monetary stability. Any Government which has the

choice of two monetary policies and deliberately chooses the one which appears to be the more likely to lead to inflation and subsequent deflation, assumes an enormous responsibility to its people.

27. Gold itself, unfortunately, is not highly stable in value, although since the end of the post-war gold deflation period, the middle of 1921, the value of gold has been reasonably stable. The wholesale index numbers of the Bureau of Labour Statistics in the United States—a country which has been on the gold basis throughout this period—have been as follows:—

1921	... ..	147.
1922	... ..	149.
1923	... ..	154.
1924	(10 months)	149.

28. The world's experiences with paper-money standards up to the present time have been much less satisfactory than with the gold standard. Managed paper-money standards have proved to be more susceptible to manipulation than is a gold standard, and more likely to vary in value under the pressure of political forces. In saying this your Commissioners do not overlook the reasonable stability of the British price level during the past three years.

29. Under present conditions it seems to us that a gold standard is much more likely to be reasonably stable in value during the next few years than is any managed paper-money standard, and this statement includes sterling in case Great Britain should be unable, or unwilling, to hold sterling at gold parity, now that parity as measured by exchange rates has been practically attained, after years of effort to carry through the Cunliffe Committee's plan.

30. Your Commissioners therefore believe that the wise and conservative action for South Africa to take at this time is to clinch gold parity while it is here and, to that end, to announce to the public at the earliest possible moment the intention of the Government to let existing legislation stand and to return definitely to the gold standard 1st July next.

31. The advantages, briefly summarized, are as follows, which we believe that South Africa will obtain by tying up her monetary unit with gold—a commodity the supply of which on the world's market is so large and the demand for which is so universal that manipulation of its value is always difficult and is destined to be increasingly difficult as the world continues its present rapid return to the gold basis:—

- (a) A greater stability in the value of her monetary unit, namely, in its purchasing power, both internal and external, than she would probably obtain by tying up to sterling in case sterling does not very soon return permanently to gold parity.

- (b) Greater stability in interest rates and a lower level of real interest rates, namely, interest rates measured in purchasing power, because the risks and uncertainties incident to an unstable currency are, at least in part, compensated for by variations in the nominal interest rate; and the greater the market's estimate of the risk, the higher will be the charge it will make under the guise of interest to cover the risk.
- (c) Stability of exchange with gold standard countries, which are continually increasing in number, and in which a large proportion of South Africa's exports (e.g. gold and diamonds) find their consumers' market—the market which is most influential in determining the ultimate demand for these products, and therefore in determining the price which South Africa will receive.
- (d) Greater confidence abroad in South Africa and resulting encouragement to the investment of foreign capital here. Conservative capital seeks markets where the prospects of currency stability are good, and will prefer for some years to come countries on the gold standard to countries with managed paper standards.
- (e) Greater confidence of labour, which, we have been told, widely believes that it has been taken advantage of by the introduction of inconvertible paper money in South Africa, and which has more confidence that it is "getting a square deal" when it is paid in gold, or in paper convertible into gold on demand, than when it is paid in inconvertible paper.
- (f) A money which in the denominations of 10s. and £1 will be more convenient for many people, particularly labouring people, than are notes, and which will also be much more sanitary.
- (g) A benefit to the gold industry in South Africa through encouraging by example the return of other countries to the gold standard. We have frequently heard abroad statements to the effect that "if South Africa, the largest gold-producing country in the world, cannot, or will not, return to the gold standard, how can our country be expected to do so."

32. In mentioning the advantages of a return to the gold standard, your Commissioners are not blind to certain very real disadvantages that South Africa will suffer if she breaks entirely with sterling, and if sterling should fluctuate for some time rather widely in terms of gold. Any alteration in a country's monetary standard—no matter how desirable it may be as a long-run policy—is bound to affect some interests adversely over considerable periods of time and many interests adversely during a brief transitional period. South Africa will be no exception to this rule if sterling should again depreciate sub-

stantially. In the judgment of your Commissioners, the greatest disadvantage that South Africa is in danger of suffering is that incident to a more variable exchange rate than she has had in the past with Great Britain, the country with which she carries on the major part of her foreign trade. While not wishing to belittle this disadvantage, your Commissioners would call attention to the fact that there are certain offsetting factors, and that, estimating the disadvantages and the advantages that are likely to result from a fluctuating exchange, the following fundamental principles should always be taken into account:—

- (a) There is no permanent advantage to the exporter or permanent disadvantage to the importer in a high rate of exchange; and likewise there is no permanent advantage to the importer or permanent disadvantage to the exporter in a low rate of exchange. Neither party gained, for example, and neither party lost prior to the European war in the trade between France and Germany by reason of the fact that the gold value of the franc was about 20 per cent. lower than the gold value of the mark. Prices and wages in both countries had long been adjusted to these differences in the gold value of their respective monetary units. It is not a question, therefore, of high rates of exchange, or low rates, but of changing rates. Whatever advantages and disadvantages occur, result only from rising rates of exchange and falling rates of exchange.

These advantages and disadvantages are, at best, temporary in character, continuing only during the period of the lag in the adjustment of prices, wages, and exchange rates to a new equilibrium level, and these readjustments are effected to a very large degree in most countries—usually within a few months' time.*

The evidence available to us here seems to show that this conclusion applies to South Africa. Whatever benefits the exporter or importer receives from these temporary maladjustments between exchange rates, prices, and wages, he is soon compelled by the forces of competition to pass on to others.

In order that the exporter might benefit continuously, it would be necessary to have a monetary unit that was continually declining in value in comparison with the unit of the country to which the bulk of the exports were being sent. No sane person would advocate a permanent monetary policy of that kind in order to benefit the export trade.

* In this connexion your Commissioners would call attention to the data on "Purchasing Power Parities" published in the recent reports of the "Commission of Gold and Silver Inquiry of the United States Senate," and the volume recently published by the U.S. Tariff Commission on "Depreciated Exchange and International Trade."

- (b) Every movement of the exchange that benefits the exporter, per contra harms the importer, and every movement that benefits the importer harms the exporter. Inasmuch as most concerns in South Africa that produce heavily for export are required to import from abroad supplies and equipment, gains on the one side from a given movement in exchange are likely to be offset completely or largely by losses on the other side. Taking into account both visible and invisible items of trade, a country's exports and imports must be equal, so that, taking a long-run view of the situation, what a country gains on the side of exports by a fluctuation in exchange, it is likely to lose on the side of imports and vice versa. If South Africa should now return to the gold standard, and if gold should continue reasonably stable in value as it has during the past three years, and if sterling should depreciate rapidly for a time and then turn around and come back to gold parity, the South African exporter would suffer while the decline was in process and for a few months after bottom should have been reached because the prices he would presumably realize in Great Britain for his exports would probably not rise as rapidly as the value of sterling would decline in terms of the South African pound. During this period the South African importer would benefit, for the amount of sterling his South African pound would buy would probably be increasing more rapidly than would the prices in Great Britain of the goods he was purchasing; but if the declared policy of Great Britain, as embodied in the Cunliffe Committee's Report, was still to be carried out, the depreciation of sterling would need to be followed by a subsequent appreciation, and during the period of the appreciation the South African exporter would benefit and the South African importer would suffer because prices would probably not go down in Great Britain as rapidly as the price of sterling in terms of South African pounds, i.e. the sterling exchange rate in South Africa would rise.
- (c) The risks incident to a fluctuating exchange can to a large extent be avoided, and in most import-export countries are so avoided, by the simple expedient of making forward exchange contracts. A exporter, for example, who is buying wool now for shipment say 60 days hence, which he has already sold in London for £10,000, and who does not wish to assume the risk of a decline in the exchange between now and the date on which he is to sell his export bill to the bank, namely, does not wish to gamble on exchange—goes to his banker and tells him that he will have £10,000 sterling of demand wool-bills to sell 60 days or so hence, and he asks

the banker to quote him now a rate at which the bank will agree to buy these bills when they shall be presented 60 days later. The banker quotes him a rate and he accepts it. Now, no matter what happens to the exchange rate during the next 60 days, the wool exporter is safe. If the rate goes down he does not lose, and if it goes up he does not gain. He is a wool exporter and knows wool, but he does not know the intricacies of exchange. He wisely "sticks to his last" and lets the banker, whose business it is to deal in exchanges, assume the risk of what will happen to exchange during the next 60 days. The wool exporter, of course, must pay the banker a small compensation in one form or another for rendering him this service.

At about the same time, we will say for illustration, a merchant who is contemplating the importation of machinery from Great Britain that will cost £10,000 sterling, and which must be paid for 60 days hence by a demand sterling draft for £10,000, likewise does not want to run the risk of exchange fluctuations between the time he has ordered his machinery and the date for making payment. He likewise explains his situation to his banker, and the banker now agrees to sell him a demand draft 60 days hence for £10,000 sterling at a certain rate. The importer now knows what to count upon, not only what he must pay for his machinery in sterling, but also what he must pay for his sterling in South African pounds, in terms of which he has contracted to sell his machinery or will sell it. If during the next 60 days the exchange rate rises, the importer of machinery does not lose, and if it falls he does not gain. He likewise has shifted the risk of exchange to a banker whose business it is to deal in such risks.

But the banker meanwhile has not assumed any appreciable risk: he has hedged. The sterling that will be paid to the credit of his London account out of the proceeds of the wool-bill which he will receive 60 days hence will provide the funds in London out of which the draft will be paid, which he must deliver to the machinery importer sixty days hence.

The bank's profits come from the margin between its buying rate and its selling rate. If the bank believes that sterling will go down in the near future, it may sell more sterling futures than it buys, namely, oversell; and if it believes that sterling will rise in the near future, it may buy more sterling futures than it sells, namely, overbuy; but in either of these cases it is speculation. The conservative banker tries to keep his forward contracts for purchases covered by forward contracts for sales, and thereby limits his profits to interest, commission, and the margin between his buying and selling rates.

33. Your Commissioners have been surprised to learn that the making of forward contracts in exchange is almost unknown in South Africa, and they believe that the introduction of this practice would be highly desirable in an event, and particularly so if South Africa returns to the gold standard independently of Great Britain and if sterling exchange rates prove to be unstable in the future. The Reserve Bank might well render valuable assistance by encouraging the introduction of the use of forward exchange contracts, both by making such contracts directly with the public and by assisting the commercial banks in getting cover at times when the exchange operations in the two directions are not reasonably well balanced. In this connexion, the Reserve Bank might be aided by the Government through a timely distribution of Government transfers.

34. Before leaving this subject of the disadvantages of an unstable exchange with the country with which you are carrying on your principal business, it should be noted that there are very few stable international exchanges in the world to-day, and that most countries, including Great Britain, the United States, France, Germany, Holland and Italy, are carrying on the principal part of their foreign trade with countries with which they have unstable exchanges. One important reason why this is possible without greater inconvenience is the widespread use of forward exchange contracts.

35. Another disadvantage in South Africa's breaking with sterling that is of sufficient importance to demand a brief discussion, is the disadvantage of her doing her public borrowing in a market having a monetary standard different from her own. It is argued that South Africa's political, commercial, and financial ties are chiefly with Great Britain; that she must borrow frequently for public purposes, and that London is the natural market for her to borrow in. London knows South African conditions better than does any other great money market, and, for that reason, will presumably give her better terms than she could obtain elsewhere. If, then, it is argued, South Africa should return to the gold standard while sterling should continue to be an inconvertible paper-money standard, South Africa might suffer a serious handicap in borrowing in London. Let us assume, for example, that at the time South Africa returns to the gold standard the bank's buying exchange rate here for sterling telegraphic transfer is 95, that that rate has persisted for several months, and that prices and wages have been so adjusted that this rate represents approximately purchasing power parity between South Africa and Great Britain. Under such conditions, if South Africa borrows £10,000,000 sterling in London on bonds maturing in twenty years at 5 per cent. interest, payable semi-annually, she would receive either £10,000,000 sterling in London or £9,500,000 South African here; but since, by hypothesis, £95 here would have the same purchasing power, an

therefore the same value, as £100 would have in London, it would make no difference to South Africa whether the proceeds of the loan were transferred to the Government here in British goods or in South African money or goods. There would be a nominal difference of £500,000, but no real difference. If gold should remain stable in value during the period of the loan and sterling should remain at 95, the loan would cost South Africa 5 per cent., because at the maturity of the loan she would be able to purchase £10,000,000 sterling for the redemption of the bonds at the price of £9,500,000 South African. But if sterling should advance to gold parity by the time the loan matured, South Africa would be required to pay back the equivalent of £10,000,000 South African, whereas she received only £9,500,000 South African or its equivalent. In addition to this, she would have paid most of her interest during the period of the loan in a more valuable monetary unit than the one she received, so that the loan would cost her about 5.4 per cent. in addition to this interest agio item.

36. If, however, at the time that South Africa borrowed the £10,000,000 sterling there was a strong prospect that sterling would appreciate to gold parity within a short time, and if, as a consequence of this prospect, foreigners were buying sterling securities heavily as a speculation, the interest rate on long-time loans would probably be considerably lower in London than, say, in a gold standard money market like New York, because in dollar loans there would be no such expectation of a substantial exchange profit. The nominal rate of interest, therefore, would be lower, and should be lower, for sterling loans in England than for dollar loans in New York by an amount representing the market's estimate of the value of this prospect for an approximately 5 per cent. rise in the value of sterling during the life of the loan. If such a rise were practically certain within the twenty years the loan was to run, a London sterling rate of interest of 5 per cent. would be approximately equivalent to a New York dollar rate of interest of 5.4 per cent. (exclusive of the agio in the annual interest payments). On the other hand, if South Africa, by borrowing sterling, should put herself in a position to lose by a rise in sterling during the life of the loan, she would also put herself in a position to gain should sterling decline during the life of the loan.

37. Another compensating factor is the probability that South Africa's credit-standing abroad would be improved by the fact that South Africa had stabilized her currency on a gold basis.

38. After all is said, however, there is no denying the claim that it is a risky policy for any country to borrow heavily in another country which has a monetary standard different from its own when that standard is a managed paper-money standard.

39. While such conditions continue, South Africa would do well, in the judgment of your Commissioners, to reduce her public borrowing to the minimum, and to do such borrowing as may be necessary, as far as possible, on a gold basis either at home or abroad.

40. A few witnesses have made much of the claim that South Africa is not in a position to maintain the gold standard independently of Great Britain. Your Commissioners have no anxiety on this point, and they are confident that, unless this country has recourse to a policy of currency and credit inflation, she will have no difficulty in maintaining gold payments after they have once been resumed. South Africa successfully maintained the gold standard for many decades prior to the European war, and your Commissioners see nothing new in the present situation of a character to prevent her maintaining it successfully in the future. In fact, there are certain new elements in the situation which should strengthen her position. The recent establishment in Pretoria of a branch of the Royal Mint will enable South Africa to mint sovereigns here, and by so doing to meet her needs for specie more promptly than in the past. Then, too, the new Reserve Bank, through its centralization of the country's bank reserves, its liberal powers of note issue, its rediscount functions, and its authority to operate in the open market, is in a position to exercise a conserving influence on the South African money market and to check any dangerous credit expansion that may seem to threaten the gold standard.

41. South Africa is now producing practically as much gold per annum as she produced before the war, and is producing a substantially larger percentage of the world's total production of gold than she did in 1913. On the other hand, only a small part of the world is now on the gold standard as compared with pre-war years, and therefore exercising much of a monetary demand on South Africa's product. The United States, which now holds about $4\frac{1}{2}$ milliards of dollars of monetary gold, or nearly half of the world's total supply, has much more gold than it needs for maintaining a stable gold standard under present conditions, and could probably release upwards of 2 milliard dollars of her present supply without deflation or danger to her gold standard. That large amount is practically impounded awaiting the day when the world will want it back for the restoration of the gold standard. The United States is a free gold market and will undoubtedly let this gold go out freely to any country that wishes it and is willing to pay the market price. The danger, therefore, that the world will want South Africa's 12 to 14 million pounds of gold specie so much as to be willing to pay more for it than South Africa is willing to pay in order to enjoy the advantages of the gold standard, is very remote.

42. Gold, like any other commodity, seeks the best market; in other words, goes to the highest bidder. It has been our experience that gold when it leaves any gold standard country in undue quantities is usually pushed out by paper money and deposit currency inflation at home—not drawn out by newly created demands from abroad. Whenever a country inflates its currency and circulating credit, it makes its currency relatively redundant at home and therefore relatively cheap; its money, therefore, seeks the better markets which are abroad. The outflow of currency takes the form of an exportation of gold since the country's paper money and silver money cannot be used abroad. As gold specie goes out (or into the arts), the currency is contracted and money at home becomes increasingly scarce, bank reserves decline, banks curtail their loans, discount rates tend upward, and prices tend downward—particularly the prices of the more sensitive commodities—commodity imports are retarded, while exchange rates are high and commodity exports are stimulated. Exchange rates finally recede from the gold-export point and gold stops going out because it has become more valuable as money at home than it is abroad. But if the country refuses to let these restricting influences operate and keeps pumping more paper money into circulation or expanding its deposit credits through excessive loans, to take the place of the gold going out, the drain of gold will, of course, continue until the gold is all gone and the gold standard is broken down. Any rapid depletion of the country's gold reserves under such circumstances will weaken public confidence in the currency, and by so doing will cause runs on the gold reserve, thus accelerating the rate of its depletion. Unless, however, the gold is being pushed out of the country by inflation, there is no more reason why a country's currency should starve because of an undue exportation of its gold specie than that its people should starve because of an undue exportation of its mealies. Under ordinary circumstances an outflow of specie is simply a proof that the supply of money at home is relatively redundant, and the outflow is merely part of the machinery by which the excessive supply is drained off and the gold standard maintained through the adjustment of the amount of money in circulation to the changing trade demands.

43. This brings your Commissioners to their last problem: What action should South Africa take to strengthen her position for returning to the gold standard 1st July next and for maintaining that standard after it has once been restored?

44. In this connexion the principal suggestions your Commissioners have to make relate to the functioning of the Reserve Bank.

45. The Act creating the Reserve Bank was assented to on 16th August, 1920, namely, shortly after the time when the post-war currency and credit inflation in South Africa, as well as of Great Britain, the United States, and many

other countries, was at its maximum, and just as the long period of after-war world deflation was setting in. Most of the Reserve Bank's history, therefore, until recently, has been during the period of South Africa's deflation, a deflation that was necessary if the country was to return to the gold basis without reducing the gold-content of its sovereign. A period of deflation is no time for a newly organized central bank to extend its business by low rates and liberal credits either to the banks or to the public. The long period of deflation, however, is now apparently over, and, with the prospective return of South Africa to the gold standard in the near future, the time is opportune for considering the question of the proper functioning of the Reserve Bank under the new order of things.

46. In the judgment of your Commissioners, a country like South Africa, with only three commercial banks—one of which is small—does not offer an adequate field of operation for a Reserve Bank that is exclusively, or almost exclusively, a banker's bank. A central bank, possessing a monopoly of the banknote issuing privilege and holding in its vaults the legal reserve money of other banks, in any country, would be a quasi-public institution "affected with a great public interest." The first duty of such a bank is to serve the public. This it does through conserving the money market by preventing undue credit expansion or undue credit contraction, by maintaining the monetary standard through regulating the supply of currency to the varying demands of trade and through assuring the public, as far as possible, equitable rates of discount and exchange. To perform these functions properly, a central bank must be ready at any time to operate in the open market, in order, by so doing, to make its rates effective and thereby enforce its policy; otherwise the commercial banks, so long as they did not need to call upon the central bank for aid, might refuse to follow its leadership and so prevent it from discharging its duties to the public. To some extent, therefore, open market operations directly with the public are absolutely necessary even by a Reserve Bank if it is to perform its functions properly.

47. A second reason why a central bank should have reasonable powers of dealing directly with the public is to enable it to earn sufficient to cover its expenses, build up a reasonable reserve, and to pay adequate dividends on its capital during normal times, when "the market is outside the bank," in other words, when market conditions are such that the commercial banks are making no demands upon the Reserve Bank for advances. A central bank whose existence is desirable in the interest of public welfare should be self-supporting. Self-preservation is heaven's first law for such a bank as it is for an individual. This means that it should be in a position to earn a moderate income at all times. If, however, it is to be always strong, and its assets are to be highly liquid so that it may be always prepared to meet emergency demands, such earning

assets as it may hold in normal times should consist wholly of high-grade liquid paper, the bulk of which should be self-liquidating commercial paper of short maturities.

48. In order, therefore, that the Reserve Bank may function so as to perform effectively the duties which the public imposes upon it, and that it may be self-supporting, your Commissioners believe that it should operate in the open market in the future much more actively than it has in the past. For this purpose its present statutory powers are broad and nearly adequate, but your Commissioners believe that, in view of the limited amount of high-grade short-time commercial paper now available in the South African market, there should be some extension of the bank's power to make advances. The following suggestions requiring minor changes in the present law are therefore made :—

- (1) That the Bank be authorized to lend money to the public or to the banks for periods not exceeding 120 days on bills or one-name promissory notes, secured by warehouse receipts against staple commodities fully insured and possessing broad and active markets, to an amount in each case not exceeding 75 per cent. of the value of such commodities at current market prices. The granting of this authority would require some modifications in South Africa's present laws regarding warehouse receipts. Bills and notes so secured play an important rôle in the portfolios of the central banks in many other countries, and your Commissioners see no reason why they should not be held, under proper restrictions as to their character, by the Reserve Bank of South Africa.
- (2) That the Bank be authorized to lend directly to other banks on the promissory notes of said banks with maturities not exceeding fifteen days, secured by any collateral properly endorsed that it is legal for the Bank to rediscount. Your Commissioners believe further that the Reserve Bank might safely be authorized to accept as collateral for such short-time loans Union Government securities, or securities of a local governmental authority of the Union, and that such collateral securities might safely be made to include such governmental securities as have maturities exceeding six months, to an amount which, when added to the amounts of such governmental securities with maturities exceeding six months owned by the Reserve Bank, and mentioned in the succeeding paragraph of this report, shall not exceed the total amount of the Reserve Bank's paid-in and unimpaired capital.
- (3) That the Reserve Bank should be permitted to invest in Union Government securities and/or securities of a local authority in the Union with maturities exceeding six months an amount which, when added to the amount of such governmental

securities held as collateral for advances of fifteen days or less, mentioned in the preceding paragraph of this report, shall not exceed the total amount of the Reserve Bank's paid-in and unimpaired capital.

- (4) That the limit of the usance for bills, notes, and other commercial paper discountable by the Reserve Bank at the time such discount is made be extended from 90 days to 120 days (article 13 of the Reserve Bank Act). Your Commissioners are informed that there is considerable high-grade 120-day commercial paper in the Union, and they see no reason why, in meeting the need for extending the field of operations of the Reserve Bank, this paper should not be made eligible for discount and/or rediscount by the Reserve Bank.
- (5) Article 17, paragraph 2, of the Reserve Bank Act provides that "... the Bank may, with the consent of the Treasury, hold gold balances outside the Union in the custody of its own branches or agencies, or deposited in other banks earmarked for the Bank's account, to an amount not exceeding one-fourth of the total reserve requirements."

This apparently prevents the Bank, no matter how much its gold reserves may exceed the 40 per cent. normal minimum required by law to be held against its outstanding notes and its deposits, from holding more than one-fourth of this amount in the form of earmarked gold abroad.

Your Commissioners recommend that the last proviso of the above article be amended by deleting its last phrase beginning with the words "to an amount," and substituting in place thereof the following:—

"provided that the gold held in the Union does not fall below 75 per cent. of the normal legal reserve requirements."

A corresponding alteration should be made in article 23 of the Act. The Bank should not be restricted by law as to the physical location of assets in the form of gold coin or bullion which it owns in excess of legal requirements. Conditions might arise in which there would be a distinct advantage to the Bank to convert earning assets located abroad into earmarked gold abroad, and the Bank should be free to do so whenever its interests seemed so to require.

49. The following administrative changes are also suggested for the purpose of enabling the Reserve Bank to function more effectively:—

- (1) That in order to afford the Bank broader facilities for enabling it to earn profits sufficient to pay its expenses and, more importantly, to enable it to exercise a stronger control over the money market, it should be encouraged to invest in the Treasury bills

of the Union Government having maturities of not greater than ninety days, and that to this end the Union Government should again issue such ninety-day Treasury bills and co-operate with the Reserve Bank and with the other banks in every way possible to create in South Africa a broad and active market for such bills.

- (2) That the present campaign to further the wider use of trade acceptances in lieu of open accounts in the Union should be encouraged, and that to this end it is desirable that merchants should give preferential terms to purchasers who are willing to accept such bills in lieu of obtaining credit on open accounts; that commercial banks should give rates that are more preferential than those now prevailing to merchants who obtain their advances from the banks by discounting such bills as compared with merchants who borrow from the banks on current account, viz., overdrafts, or on one-name promissory notes; and that the Reserve Bank give substantially preferential discount and rediscount rates on trade acceptances.
- (3) That the Government should look forward to the time when it will use the Reserve Bank as the chief depository of Government funds and should gradually increase the proportion of its funds that are kept on deposit in the Reserve Bank. If a commercial bank needs the use of Government funds, it should obtain them by loans or rediscounts from the Reserve Bank, not by Government deposits. The Reserve Bank is in a better position than is the Government to measure such needs and to control such advances. In lieu of the interest which it now receives on its funds deposited in commercial banks, the Government would receive increased returns from its participation in the profits of the Reserve Bank.
- (4) That the Reserve Bank should open branches at early dates in the principal cities of the Union and a branch in London.

50. A return to the gold standard will render useless article 32 of the Reserve Bank Act, which has always been rather ineffective. This article provides that—

“No person shall make a charge for receiving or cashing any banknote or gold certificate issued in the Union, and no person may sell or purchase any banknote or gold certificate issued in the Union or any coin current in the Union for an amount exceeding its face value; and any person acting in contravention of this section shall be guilty of an offence and liable on conviction to a fine not exceeding £500, or to imprisonment for a period not exceeding two years or to both such fine and imprisonment.”

It is therefore recommended that this article be repealed.

51. With the return of the Union to the gold standard, the present gold certificates will no longer be necessary, and, as they tend to replace Reserve Bank notes in the country's circulation, your Commissioners recommend that they cease to be issued, and that those now outstanding be promptly retired after 1st July.

52. The effective functioning of the gold standard requires that all restrictions on the free movement of gold coin and bullion into and out of the Union, and all restrictions on the melting of gold coin, be withdrawn, and your Commissioners therefore recommend that this be done, and that the market for gold in South Africa be made an absolutely free market.

We are, Sir,

Your obedient servants,

E. W. KEMMERER.

G. VISSERING.

Pretoria, 8th January, 1925.

FORM OF QUESTIONNAIRE

1. Are you in favour of South Africa returning to the gold standard on 30th June, 1925, without any restrictions?

2. Do you think that South Africa should take steps independently of Great Britain to return to the gold standard?

3. If your answer to 2 is negative, do you think that South Africa should do anything, or nothing, to protect her currency from following the pound sterling in any possible future depreciation?

4. Are you in favour of South Africa adopting the policy of a gradual return to the gold standard, such, for example, as was proposed in England in the year 1820?

5. What would be the effect of South Africa returning to the gold standard independently of Great Britain—

(a) on prices;

(b) on wages;

(c) on production;

(d) export trade;

(e) import trade;

(f) the Union Government's finances?

6. If South Africa returned to the gold standard independently of Great Britain, would the premium on South African money tend to the export of capital from South Africa and, conversely, hinder capital from flowing to South Africa; or, on the other hand, would the return to the gold standard attract capital to South Africa?

7. What would be the effect on the exchange rates between South Africa and Great Britain if South Africa should return to the gold standard in advance of Great Britain?

8. If it could be assumed that Great Britain in the course of the next twelve months would resume a free gold basis, should South Africa take any present steps in contemplation of her simultaneously resuming a gold basis?

9. If South Africa should return to the gold basis 30th June, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?

10. What functions should the Reserve Bank perform in this connexion?

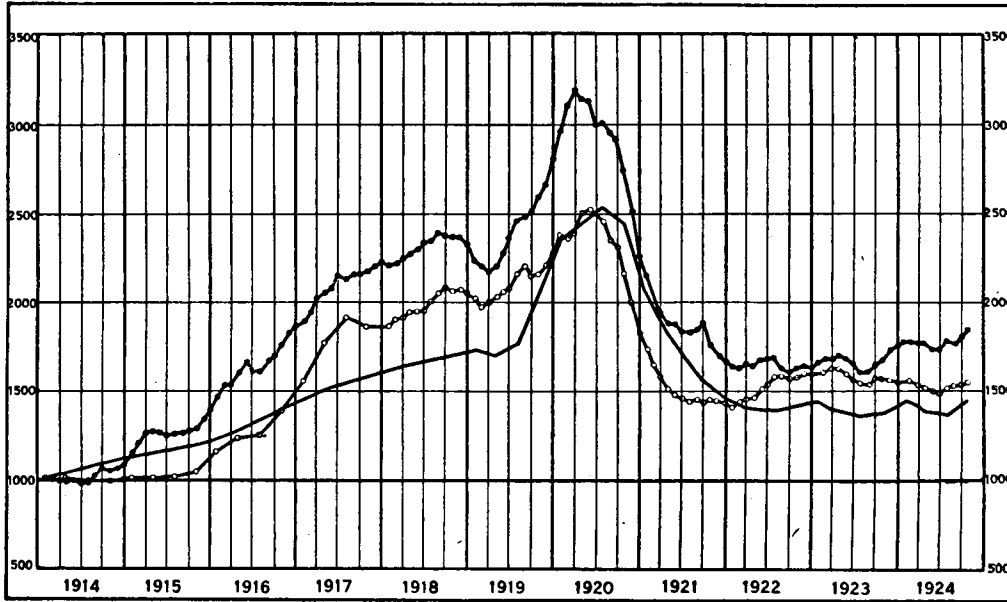
ANNEXURES.

ANNEXURE 1.

WHOLESALE PRICES IN UNION OF SOUTH AFRICA, UNITED KINGDOM, AND UNITED STATES OF AMERICA.

AANHANGSEL 1.

GROOTHANDELSPRIJZEN IN UNIE VAN ZUID-AFRIKA, VERENIGD KONINKRIJK EN VERENIGDE STATEN VAN AMERIKA.



UNION OF SOUTH AFRICA (CENSUS OFFICE)
UNIE VAN ZUIDAFRIKA (CENSUS KANTOOR)

UNITED KINGDOM (ECONOMIST)
VERENIGD KONINKRIJK (ECONOMIST)

UNITED STATES OF AMERICA
(LABOUR BUREAU)
VERENIGDE STATEN VAN AMERIKA
(ARBEIDSBUREAU)

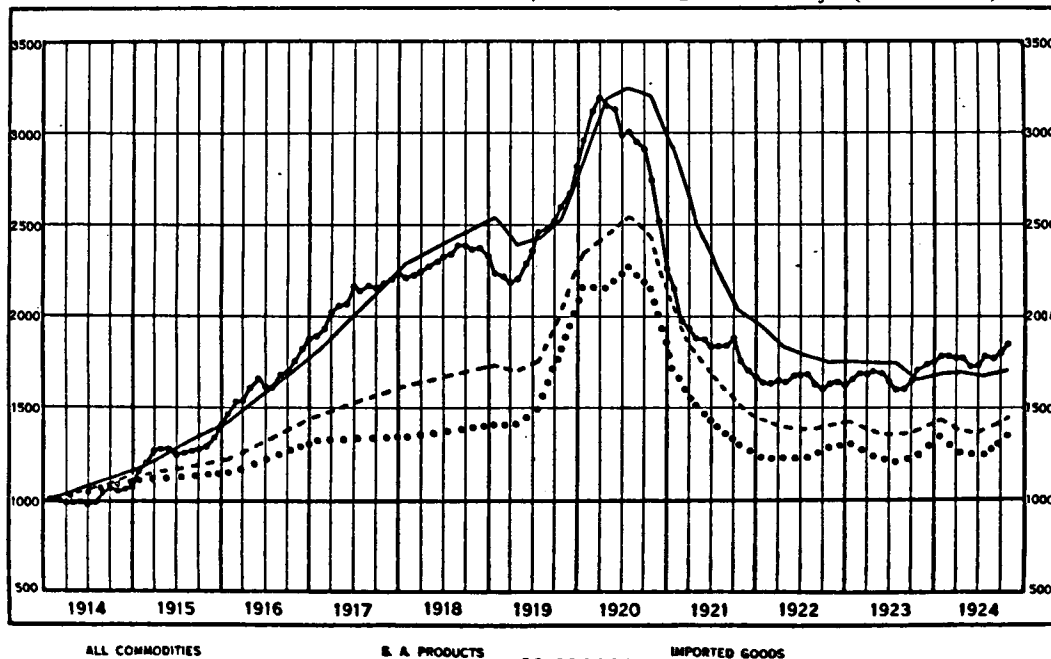
BASE JANUARY 1914 - 1.000
NIVEAU JANUARIE 1914 - 1.000

ANNEXURE 2.

WHOLESALE PRICES OF UNION OF SOUTH AFRICA CLASSIFIED AS ALL COMMODITIES, SOUTH AFRICAN PRODUCTS AND IMPORTED GOODS, THE LAST COMPARED WITH THE UNITED KINGDOM (*ECONOMIST*).

AANHANGSEL 2.

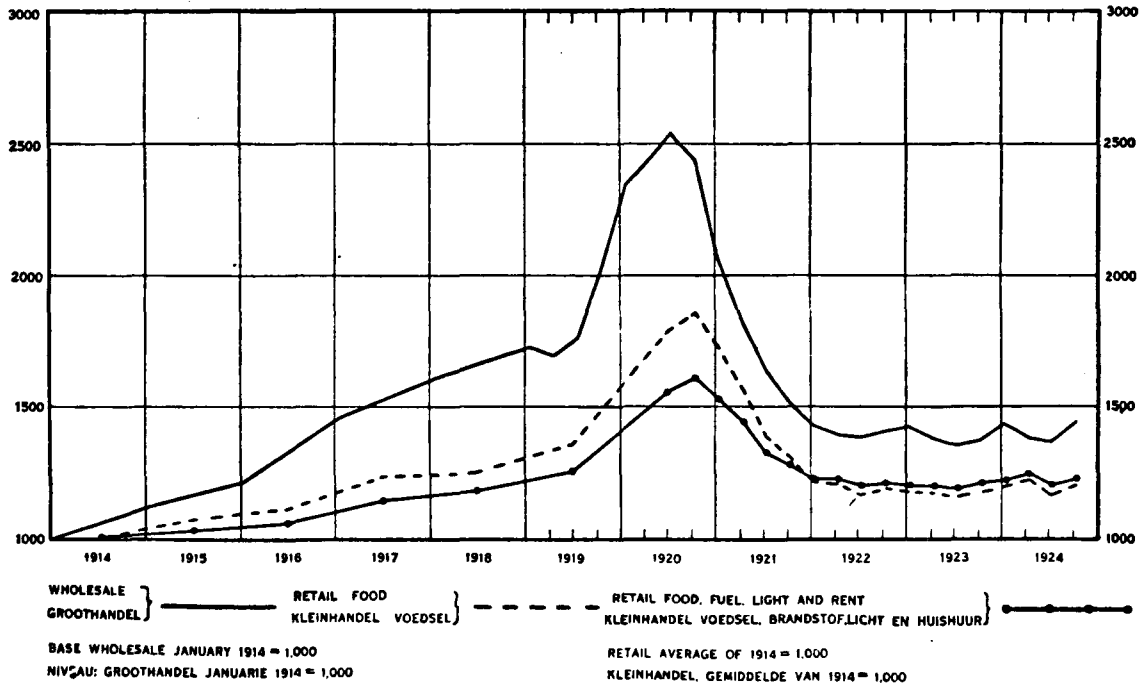
GROOTHANDELSPRIJZEN VAN UNIE VAN ZUID-AFRIKA GERANGSCHIKT ALS ALLE LEVENSBEHOEFTEEN, ZUIDAFRIKAANSE PRODUKTEN EN INGEVOERDE GOEDEREN, DE LAATSTE VERGELEKEN MET HET VERENIGD KONINKRIJK (*ECONOMIST*).



ANNEXURE 3.

AANHANGSEL

WHOLESALE PRICES COMPARED WITH RETAIL PRICES IN SOUTH AFRICA.
GROOTHANDELS- VERGELEKEN MET KLEINHANDELSPRIJZEN IN ZUID-AFRIKA.
1914-1924.

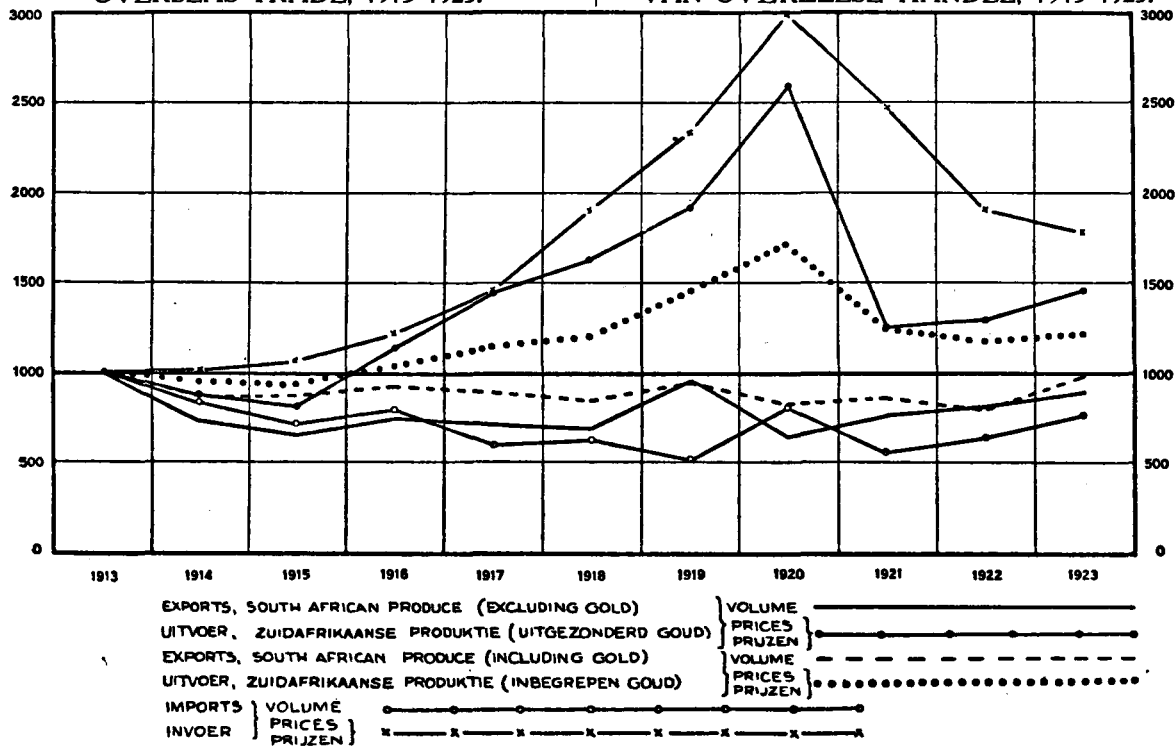


• ANNEXURE 4.

CHANGES IN VOLUME AND VALUE OF OVERSEAS TRADE, 1913-1923.

AANHANGSEL 4.

WIJZIGINGEN IN VOLUME EN WAARDE VAN OVERZEESSE HANDEL, 1913-1923.

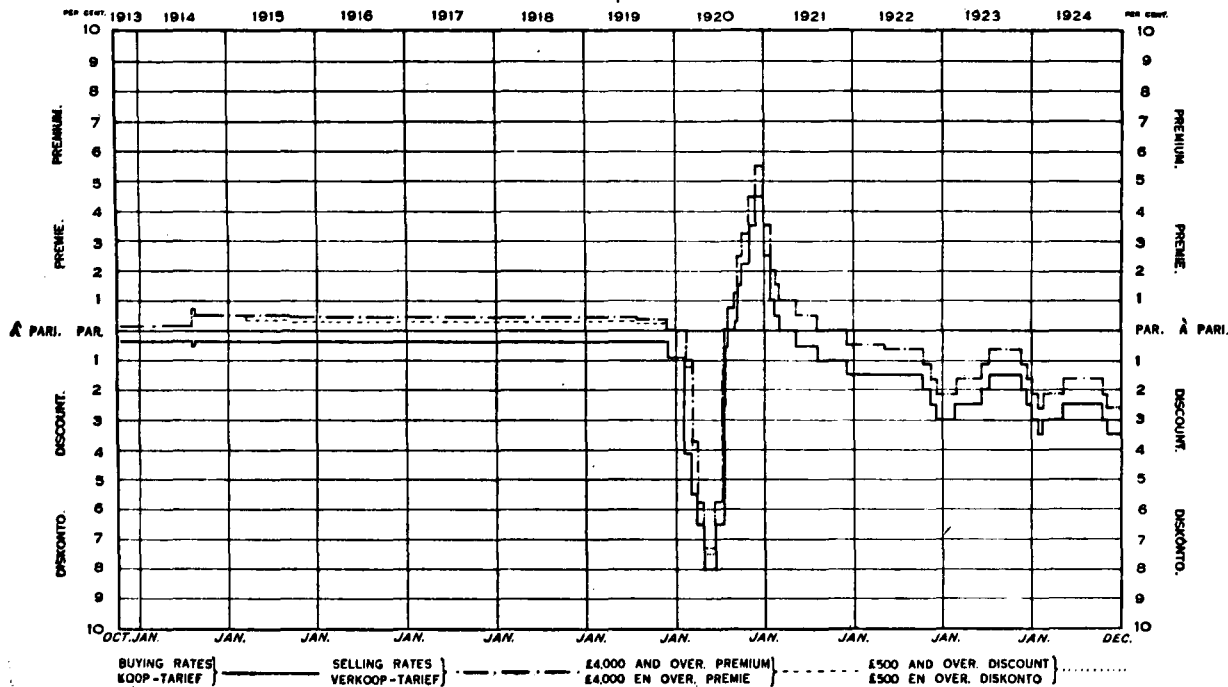


ANNEXURE 5.

AANHANGSEL 5.

SOUTH AFRICA ON LONDON—TELEGRAPHIC
TRANSFER RATES, 1913—1924.

ZUID-AFRIKA OP LONDEN—TELEGRAFIESE
TRANSFERTEN-TARIEF, 1913—1924.

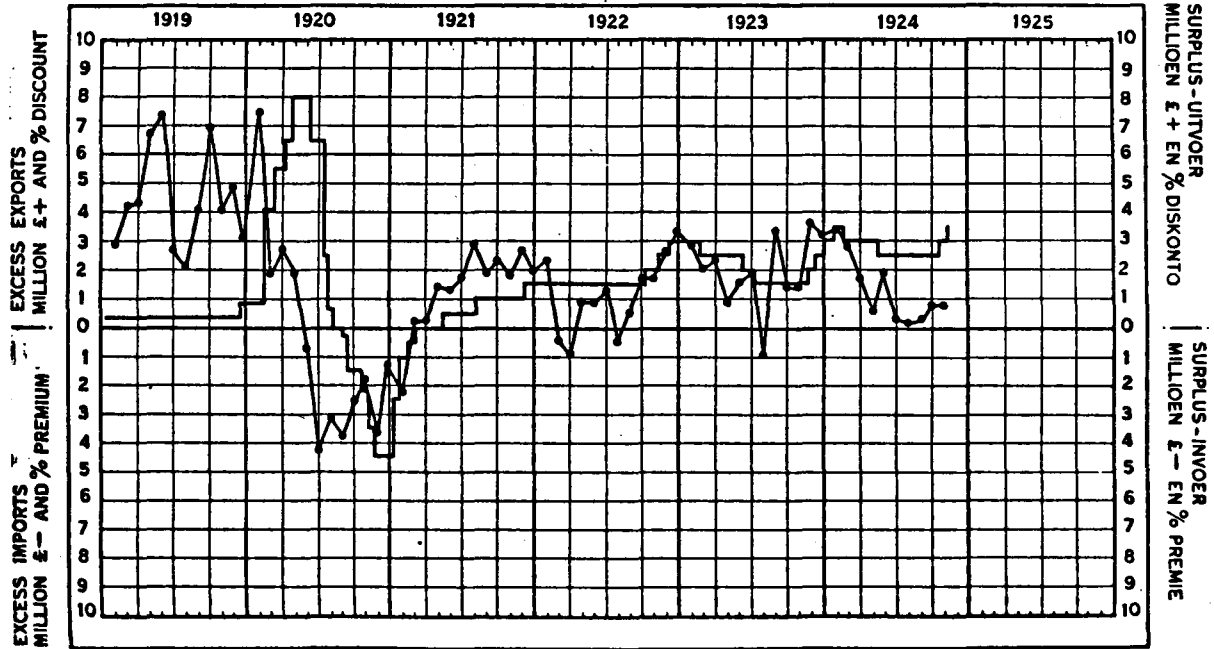


ANNEXURE 6.

COMPARISON OF CHANGES IN THE EXCHANGE RATE ON LONDON WITH THE MONTHLY BALANCE OF VISIBLE TRADE OF THE UNION, 1919-1924.

AANVAANGSEL 6.

VERGELIJKING VAN WIJZIGINGEN IN DE WISSELKOERS OP LONDON MET HET MAANDELIJKE ZICHTBARE HANDELSALDO VAN DE UNIE, 1919-1924.



BUYING RATE TELEGRAPHIC TRANSFER ON LONDON

ANNEXURE 7.

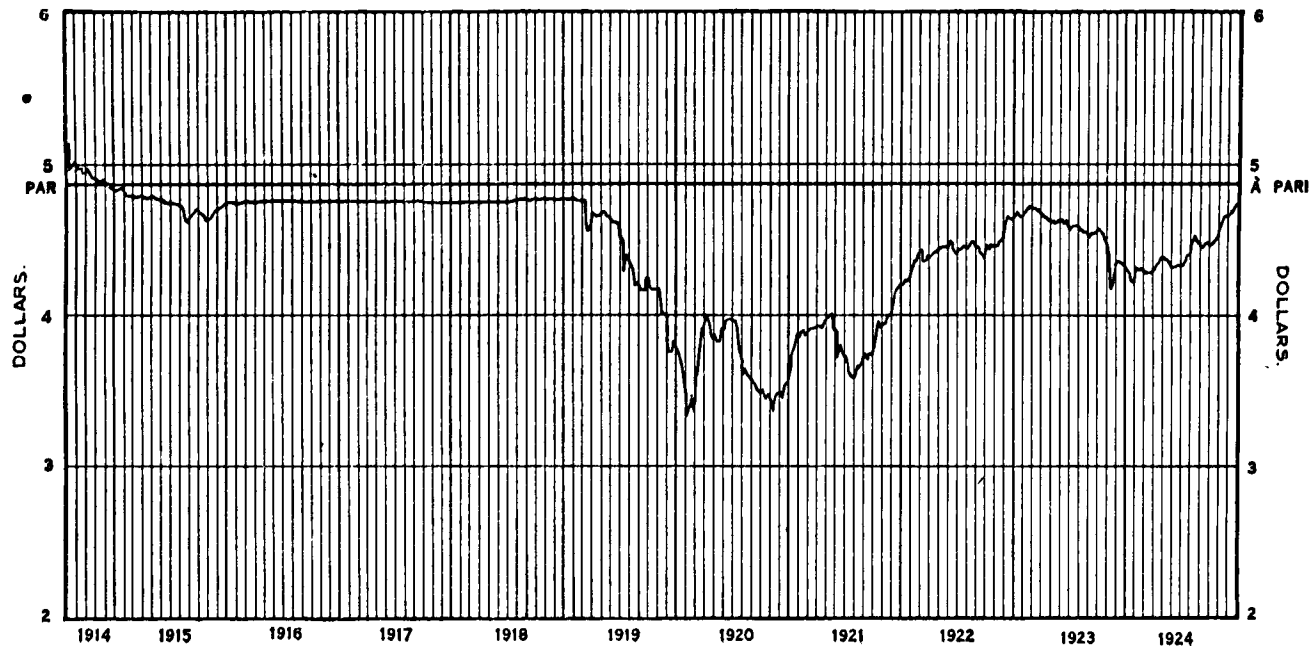
AANHANGSEL 7.

COURSE OF AMERICAN EXCHANGE—LONDON
ON NEW YORK, 1914 TO 1924.

AMERIKAANSE WISSELKOERS—LONDEN OP
NEW YORK, 1914 TOT 1924.

VALUE OF THE POUND STERLING EXPRESSED
IN DOLLARS.

WAARDE VAN HET POND STERLING IN DOLLARS
UITGEDRUKT.

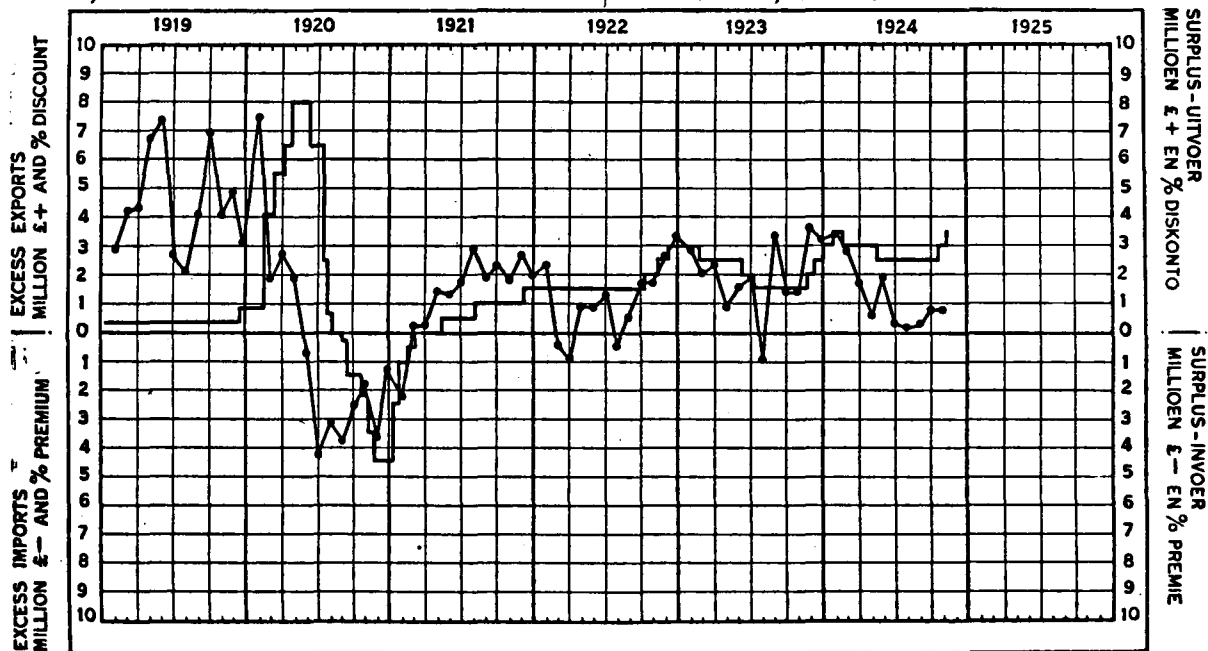


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COMPARISON OF CHANGES IN THE EXCHANGE RATE ON LONDON WITH THE MONTHLY BALANCE OF VISIBLE TRADE OF THE UNION, 1919-1924.

AANAANGSEL 6.

VERGELIJKING VAN WIJZIGINGEN IN DE WISSELKOERS OP LONDON MET HET MAANDELIJKE ZICHTBARE HANDELSALDO VAN DE UNIE, 1919-1924.



BUYING RATE TELEGRAPHIC TRANSFER ON LONDON
 KOOP-TARIEF, TELEGRAFIESE TRANSFERTEN OP LONDON

ANNEXURE 7.

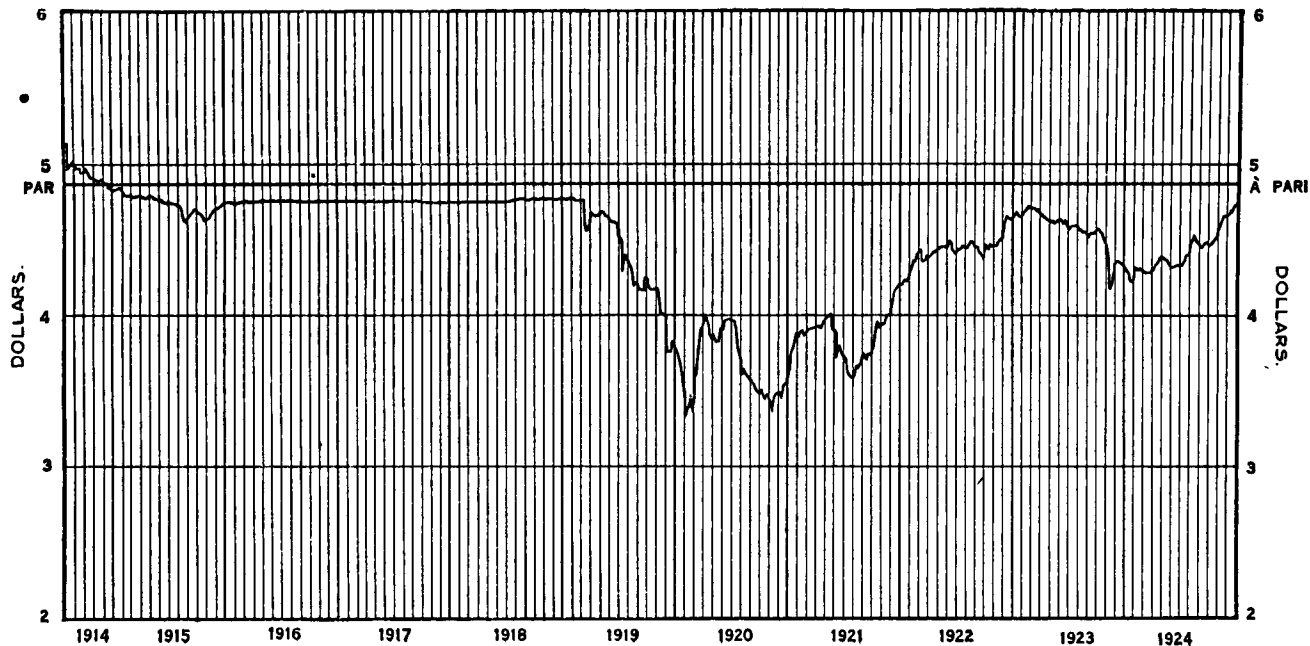
COURSE OF AMERICAN EXCHANGE—LONDON
ON NEW YORK, 1914 TO 1924.

AANHANGSEL 7.

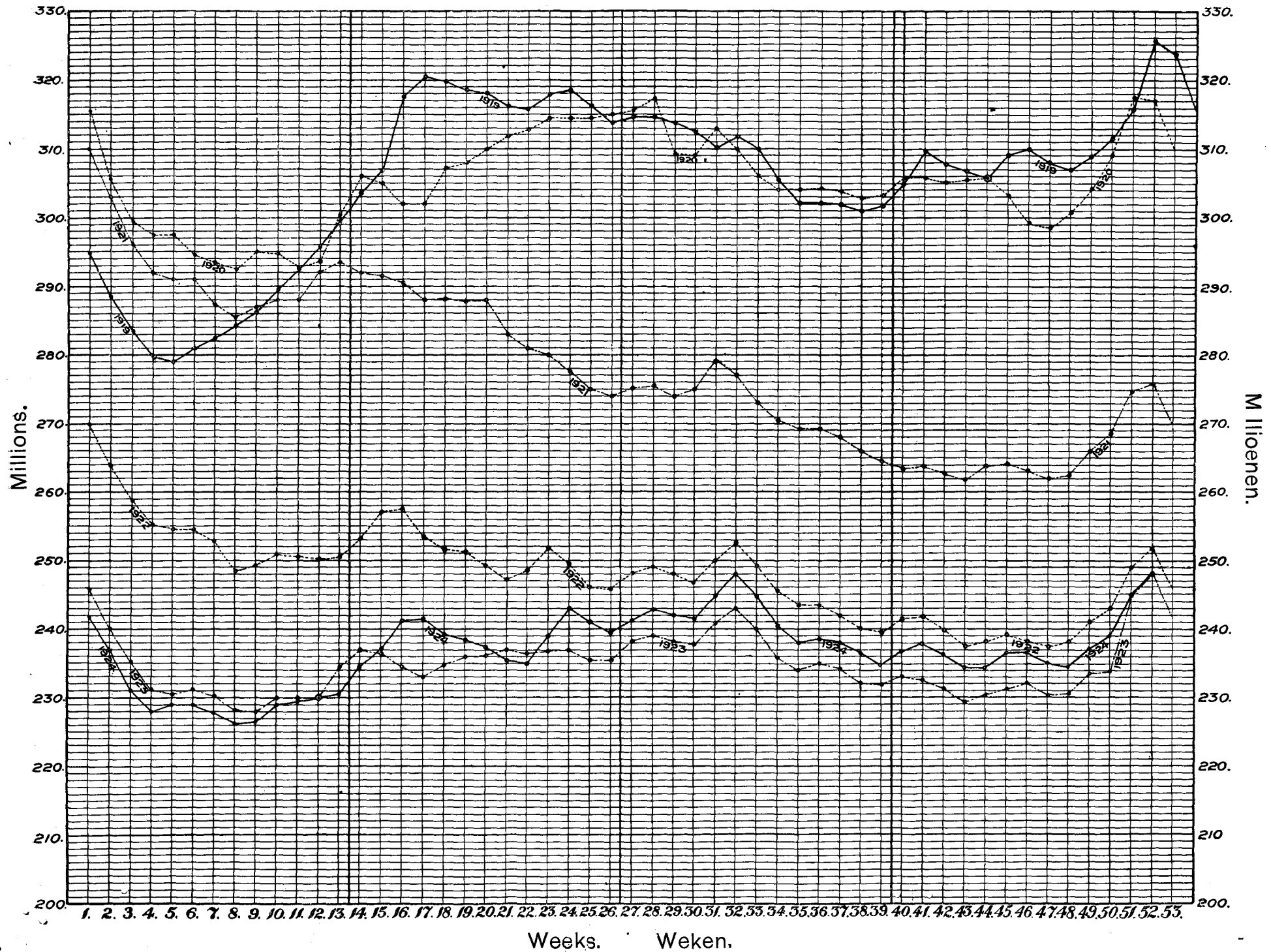
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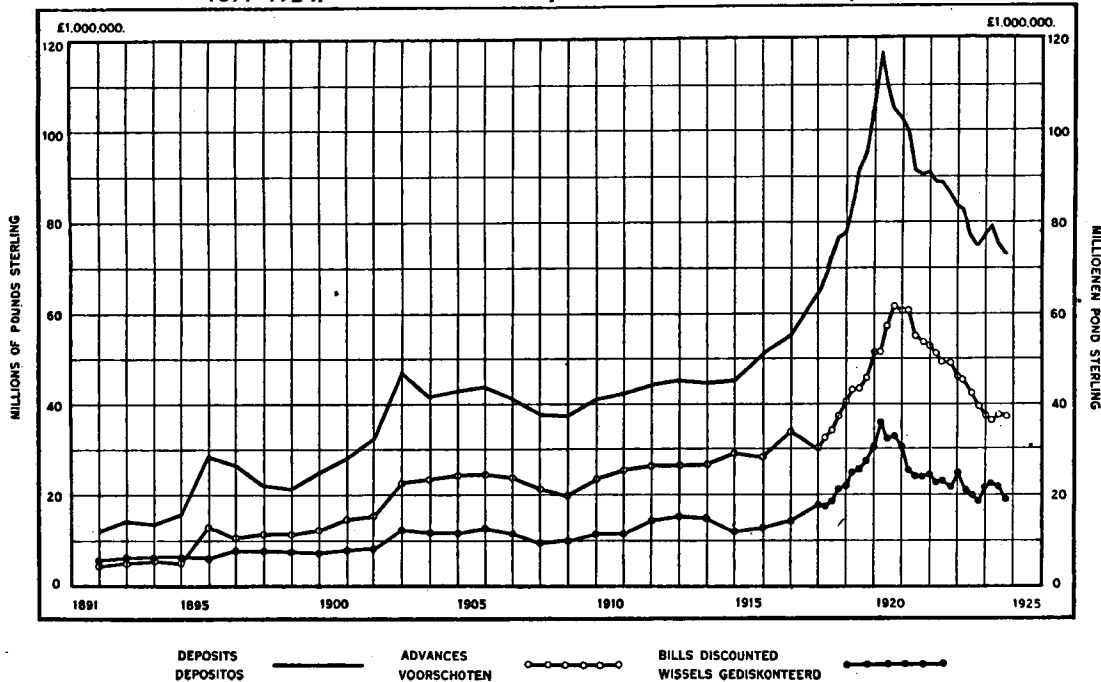


FIDUCIARY CIRCULATION OF BRITISH CURRENCY NOTES. FIDUCIAIRE CIRKULATIE VAN BRITSE BETAALMIDDEL-NOTEN.



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AANHANGSEL 9.
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 SCHOTTEN, 1891-1924.



ANNEXURE 10.

SOUTH AFRICAN RESERVE BANK.

Highest liability figures shown in any month in the Bank's Statutory Weekly Statement.

Date.	Notes.	Deposits.	Coin, Gold Bullion, and Gold Certificates.	Discounts and Advances.	Ratio of 3 to 1 and 2.
	1*.	2.	3.	4.	5†.
	£m.	£m.	£m.	£m.	Per Cent.
1921.					
July 30.....	—	5·8	5·4	·7	92·6
Aug. 27.....	—	7·2	6·0	1·7	83·0
Sept. 10.....	—	7·4	6·0	2·0	80·7
Oct. 29.....	—	7·3	5·3	2·8	72·5
Nov. 26.....	—	7·1	5·3	2·8	74·9
Dec. 24.....	—	7·1	5·3	2·8	74·9
1922.					
Jan. 28.....	—	7·4	5·1	3·3	69·3
Feb. 18.....	—	7·4	5·1	3·3	69·3
Mar. 11.....	—	7·4	5·1	3·3	69·3
April 29.....	·5	6·2	5·6	2·2	82·8
May 27.....	·8	6·3	5·9	2·2	83·0
June 24.....	2·0	6·7	7·3	3·3	76·4
July 29.....	6·4	5·6	9·4	3·6	78·6
Aug. 26.....	7·4	5·1	10·1	3·4	81·2
Sept. 2.....	7·8	5·3	10·2	3·9	78·3
Oct. 28.....	8·4	5·1	10·6	4·0	78·3
Nov. 25.....	8·8	5·4	10·7	4·5	75·2
Dec. 30.....	10·0	5·2	10·7	5·5	70·4
1923.					
Jan. 6.....	9·9	5·1	10·7	5·4	71·0
Feb. 24.....	9·7	5·2	10·6	5·3	71·1
Mar. 17.....	9·7	6·2	10·6	6·4	66·6
April 28.....	9·9	5·4	10·7	5·6	70·0
May 26.....	9·6	6·0	10·7	6·0	68·7
June 30.....	13·1	5·0	10·7	8·4	59·3
July 7.....	12·0	5·3	10·7	8·2	60·3
Aug. 4.....	10·9	5·2	10·7	6·5	66·6
Sept. 8.....	10·5	5·9	10·6	6·7	65·5
Oct. 27.....	10·5	5·4	10·7	6·2	67·7
Nov. 3.....	10·6	5·3	10·7	6·3	67·4
Dec. 29.....	11·3	4·8	10·7	6·5	66·5
1924.					
Jan. 26.....	10·5	4·7	10·7	5·5	69·9
Feb. 23.....	10·3	5·7	10·7	6·4	67·0
Mar. 29.....	10·3	5·1	10·7	6·4	66·8
April 26.....	10·9	5·4	10·7	6·7	65·7
May 8.....	11·1	5·3	10·7	6·8	65·3
June 28.....	10·3	5·6	10·7	6·8	65·7
July 5.....	10·7	5·5	10·3	6·8	64·9
Aug. 30.....	10·6	5·0	10·3	6·0	67·5
Sept. 27.....	10·4	4·6	10·3	5·4	70·4
Oct. 4.....	10·5	4·6	10·3	5·4	69·0
Nov. 29.....	11·1	5·0	10·3	6·4	65·8
Dec. 27.....	11·4	4·5	10·3	6·4	66·4
1925.					
Jan. 3.....	11·6	4·8	10·3	6·9	64·0
" 10.....	11·3	5·2	11·3	6·3	66·9
" 17.....	11·1	5·4	12·5	5·1	74·2
" 24.....	10·9	·7	13·0	4·8	76·6
" 31.....	11·3	5·5	13·0	4·9	75·8
Feb. 7.....	11·0	5·6	13·5	4·3	79·3

* Notes of other banks for which liability was assumed in June, 1924, in terms of section 15 (3) (c) of Act No. 31 of 1920, are not, it is understood, included in the Bank's Weekly Statement as a note liability. In consequence of this, it is not possible to ascertain from the published return of the Bank the full note circulation. (See also note to Annexure 11.)

† The percentages in column 5 do not represent the exact ratio of cash to notes and deposits. Owing to the practice referred to in the preceding note, it has been deemed preferable to take the Bank's published ratio of cash to total liabilities to the public as the head "Other Liabilities" in the Bank. Return evidently includes liabilities to the public as well as liabilities to stockholders.

SOUTH AFRICAN BANKS.

Liabilities to the Public in the Union and Cash Assets in the Union (000's omitted).

	Notes.	Deposits.		Total.	Coin and Bullion, including Gold Certificates.	South African Reserve Bank Notes.	Balances in Reserve Bank.	Total.	Percentage of Cash to Liabilities to Public.	Advances and Discounts in the Union.
		Demand.	Time.							
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	£	£	£	£	£	£	£	£	£	£
1913.										
June 30	2,808	35,977		38,280	6,908	—	—	—	18.0	33,019
Dec. 31	2,263	34,267		36,550	7,064	—	—	—	19.3	32,954
1914.										
June 30	2,104	33,341		35,445	6,978	—	—	—	19.7	31,565
Dec. 31	2,374	35,741		38,115	6,307	—	—	—	16.5	29,697
1915.										
June 30	2,593	40,056		42,649	6,645	—	—	—	15.5	28,241
Dec. 31	2,680	40,991		43,671	6,587	—	—	—	15.0	30,152
1916.										
June 30	2,758	43,648		46,406	6,176	—	—	—	13.3	33,115
Dec. 31	3,331	43,913		47,294	5,558	—	—	—	11.7	36,826
1917.										
June 30	3,943	48,323		52,266	5,793	—	—	—	11.0	36,587
Dec. 31	4,527	52,070		56,597	6,172	—	—	—	10.9	35,842
1918.										
June 30	5,426	58,937		64,363	6,600	—	—	—	10.2	38,563
Dec. 31	6,299	63,502		69,771	6,851	—	—	—	9.8	48,502
1919.										
June 30	6,572	75,279		81,851	7,532	—	—	—	9.2	49,871
Dec. 31	7,984	83,073		90,057	7,303	—	—	—	7.6	53,538
1920.										
Mar. 31	9,011	94,365		103,376	7,644	—	—	—	7.3	56,356
June 30	8,799	86,082		94,881	9,704	—	—	—	10.2	63,920
Dec. 31	9,086	78,145		87,211	10,365	—	—	—	11.8	69,911
1921.										
Mar. 31	8,870	75,700		84,570	11,083	—	—	—	13.1	65,630
June 30	8,535	41,887	29,770	80,192	6,495	—	5,699	12,194	15.2	61,698
July 31	8,866	39,304	31,118	79,289	6,046	—	5,839	11,885	14.9	—
Aug. 31	8,443	40,004	30,561	79,008	5,642	—	7,189	12,331	16.2	—
Sept. 30	8,698	39,372	30,356	79,056	6,351	—	7,493	13,544	17.5	56,675
Oct. 31	8,458	40,605	29,645	78,708	6,451	—	7,331	13,783	17.5	—
Nov. 30	8,376	40,612	29,498	78,486	6,568	—	7,130	13,689	17.4	—
Dec. 31	8,764	42,366	23,421	80,051	7,122	—	6,520	13,643	17.0	54,990
1922.										
Jan. 31	8,279	43,477	27,613	79,569	6,957	—	7,366	14,323	18.0	—
Feb. 28	8,125	44,408	26,887	79,421	6,981	—	7,353	14,339	18.0	—
Mar. 31	8,297	42,184	27,983	78,464	6,935	—	7,118	14,053	17.9	53,429
Apr. 30	8,101	40,194	28,337	76,631	6,470	512	6,229	13,211	17.2	—
May 31	7,760	39,430	27,896	75,076	6,236	744	6,279	13,310	17.7	—
June 30	7,597	40,231	27,063	74,896	4,775	3,229	6,142	14,147	18.2	50,640
July 31	3,734	39,170	27,592	70,496	2,847	2,420	5,523	10,795	15.3	—
Aug. 31	2,604	38,955	27,944	69,503	2,177	2,799	5,250	10,226	14.7	—
Sept. 30	2,012	38,186	27,716	67,914	1,992	2,101	4,932	9,026	13.2	48,911
Oct. 31	1,865	39,796	26,285	67,746	1,899	2,548	4,974	9,421	13.9	—
Nov. 30	1,426	40,780	26,606	68,811	1,837	2,679	5,276	9,792	14.2	—
Dec. 31	1,236	40,848	25,450	67,534	1,761	2,937	5,156	9,854	14.5	46,200

	Notes.	Deposits.		Total.	Coin and Bullion, including Gold Certificates.	South African Reserve Bank Notes.	Balances in Reserve Bank.	Total.	Percentage of Cash to Liabilities to Public.	Advances and Discounts in the Union.
		Demand.	Time.							
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	£	£	£	£	£	£	£	£	£	£
1923.										
Jan. 31	1,072	43,428	13,585	68,035	1,862	3,239	5,098	10,194	14.9	—
Feb. 28	987	41,898	23,406	66,291	1,747	2,995	5,894	10,137	15.2	—
Mar. 31	895	40,163	23,220	64,278	1,600	2,220	5,371	9,191	14.3	43,842
Apr. 30	796	39,961	23,495	64,252	1,614	2,590	5,512	9,717	15.1	—
May 31	765	39,788	22,902	63,455	1,590	2,556	5,797	9,943	15.6	—
June 30	740	38,058	22,123	60,921	1,520	5,010	5,029	11,559	18.9	40,837
July 31	705	38,257	21,817	60,778	1,577	3,513	5,280	10,370	17.0	41,645
Aug. 31	663	38,432	21,108	60,202	1,580	3,003	5,681	10,264	17.0	40,632
Sept. 30	639	36,490	21,660	58,789	1,499	2,658	5,119	9,274	15.7	40,172
Oct. 31	617	38,336	20,741	59,695	1,560	2,858	5,348	9,766	16.3	39,488
Nov. 30	589	36,838	21,144	60,571	1,578	2,568	4,909	9,056	14.9	39,513
Dec. 31	571	40,931	20,605	62,107	1,519	3,086	4,862	9,467	15.2	38,722
1924.										
Jan. 31	555	42,341	20,095	62,991	1,641	2,968	4,907	9,517	15.1	37,898
Feb. 29	542	40,395	20,411	61,338	1,584	2,509	5,802	9,895	15.1	36,963
Mar. 31	506	39,379	19,896	59,780	1,606	2,435	5,282	9,324	15.5	36,224
Apr. 30	486	37,926	20,220	58,632	1,621	2,733	5,543	9,897	16.8	36,731
May 31	447	37,285	20,475	58,207	1,509	2,286	5,682	9,477	16.2	37,089
June 30	*	38,095	19,446	57,541	1,423	2,584	5,533	9,541	16.5	36,650
July 31	*	37,557	19,399	56,956	1,459	2,763	5,260	9,482	16.6	36,754
Aug. 31	*	35,906	20,263	56,169	1,400	2,499	5,038	8,937	15.9	37,142
Sept. 30	*	36,368	19,835	56,223	1,423	2,451	4,807	8,682	15.4	37,057
Oct. 31	*	37,095	19,530	56,625	1,402	2,372	4,992	8,768	15.4	37,293
Nov. 30	*	37,106	20,699	57,905	1,369	2,523	4,951	8,842	15.2	37,367
Dec. 31	*	38,571	20,065	58,636	1,303	2,962	4,624	8,889	15.1	36,562

*Under section 15 (3) (c) of the Currency and Banking Act, other banks were required to pay over the amount of their outstanding notes to the South African Reserve Bank, the latter being responsible for their redemption. Although no note liabilities are shown in the banks' monthly statements or in the Treasury's monthly summary issued since May, 1924, an amount which the Commissioners have been unable to ascertain is owing by the National Bank of South Africa, Ltd., to the South African Reserve Bank in respect of outstanding notes of the Bank of Africa, Ltd., the Natal Bank, Ltd., and the National Bank of the Orange River Colony, Ltd.

ANNEXURE 12.

UNION OF SOUTH AFRICA.

Borrowings of Union Government in London, excluding Imperial Government temporary advances received and repaid in respect of war services.

Financial Year ended 31st March.	Amount Raised by Stock or Debentures.	Amount Raised by Treasury Bills and Advances from Banks.	Stock or Debentures Repaid or Cancelled.	Treasury Bills and Advances from Banks Repaid.	Net Borrowings.	Repayments or Cancellations in excess of Borrowings.
1.	2.	3.	4.	5.	6.	7.
1913-14.....	£ 8,000,000	£ 6,000,000 *713,000	£ 280,740	£ 2,000,000 *1,313,000	£ 11,119,260	—
1914-15.....	4,000,000	*611,000	182,100	4,000,000 *611,000	—	182,100
1915-16.....	3,000,000	*221,210	231,484	*221,210	2,768,516	—
1916-17.....	3,384,000	—	249,412	—	3,134,588	—
1917-18.....	—	—	1,151,349	—	—	1,151,349
1918-19.....	—	—	1,020,191	—	—	1,020,191
1919-20.....	—	—	151,901	—	—	151,901
1920-21.....	—	3,000,000 *1,090,000	109,806	*1,090,000	2,890,194	—
1921-22.....	14,500,000	6,000,000 *3,770,000	37,545	9,000,000 *3,770,000	11,462,455	—
1922-23.....	—	8,000,000	173,604	4,000,000	3,826,396	—
1923-24.....	13,000,000	3,000,000 *2,063,567	6,516,164	7,000,000 *2,063,567	2,483,836	—
1924..... (Apr. 1-Dec. 31)	8,000,000	*1,720,000	1,980,900	*1,720,000	6,019,100	—
£	58,884,000	36,183,777	12,085,196	36,783,777	48,704,345	2,505,541
	Net sum borrowed abroad—1st April, 1913, to 31st December, 1924.....				<u>£46,198,804</u>	

* Advances from banks.

UNION OF SOUTH AFRICA .



REPORT

SUBMITTED BY

DR. EDWIN WALTER KEMMERER.

Professor of Economics and Finance, Princeton University, U.S.A.

AND

DR. GERARD VISSERING

President of the Netherlands Bank

ON THE

RESUMPTION OF GOLD PAYMENTS

BY THE

UNION OF SOUTH AFRICA

WITH

Minutes of Evidence, Appendixes, and Index

PRETORIA :

THE GOVERNMENT PRINTING AND STATIONERY OFFICE

1925

U. G. No. 13, '25.

PRINTED BY THE GOVERNMENT PRINTER, PRETORIA.
182 - 5/1/25 - 2,000.

TERMS OF REFERENCE

“To visit the Union and investigate the question of the restoration of the Gold Standard by the Union independent of the United Kingdom.”

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THE HONOURABLE THE MINISTER OF FINANCE,
PRETORIA.

SIR,

1. Your Commissioners were invited by your cablegram of the 8th October last to the High Commissioner for the Union of South Africa in London—

“To visit the Union and investigate the question of the restoration of the gold standard by the Union independent of the United Kingdom.”

It was indicated to them that the inquiry should not involve a stay in South Africa of more than a month, and that it was desirable for it to be concluded before Parliament met in January.

2. Professor Kemmerer cabled his acceptance of the invitation on 13th October, and left Princeton, New Jersey, on 11th November, arriving in London on the evening of Tuesday, 18th November. Dr. Vissering's acceptance was in Sir Edgar Walton's hands on 18th October, and Dr. Vissering arrived in London from the Netherlands on Sunday, 16th November, having previously visited London for a few days, in connexion with his mission, in the latter part of October.

3. During your Commissioners' stay in London they took the informal testimony of Professor Edwin Cannan, LL.D., Mr. Oswald T. Falk, C.B.E., Colonel R. A. Johnson, C.B.E. (Deputy Master and Comptroller of the Mint), Mr. William Mosenthal, Sir Ernest Oppenheimer, Sir Lionel Phillips, Bart., Mr. Joh. Postmus (General Manager, Netherlands Bank of South Africa), Mr. L. G. Roussin, C.M.G., late Financial Secretary to the Government of Egypt, and Sir Henry Strakosch, K.B.E.

4. Your Commissioners also had interviews and discussions with the following gentlemen:—Sir Charles S. Addis, K.C.M.G., the Hon. R. H. Brand, C.M.G., Mr. R. G. Hawtrey, C.B., Mr. Francis W. Hirst, Sir Robert Kindersley, G.B.E., Mr. Joseph Kitchin, Mr. Miller, of *The Times* newspaper, Sir O. E. Niemeyer, K.C.B., the Right Hon. Montagu C. Norman (Governor, Bank of England), Sir Felix Schuster, Bart., Lord Swaythling and Mr. E. L. Franklin (of Messrs. Samuel Montagu & Company), and Mr. P. Vuyk (General Manager, Transvaal Commercial Bank, Amsterdam).

5. Leaving London for South Africa on 21st November, your Commissioners reached Capetown on 8th December,

where your telegram was received requesting them to come to Pretoria by the earliest train.

6. Prior to their arrival in South Africa, your Commissioners had time to study the reports of the Gold Conferences held in Pretoria in 1919 and 1921, and the reports and hearings of the Select Committees of the Union House of Assembly of 1920 and 1923, and other documents and statistics which they had collected or which were supplied to them before they left England.

7. On 10th December, after their interview with you, the following general invitation was issued through the Press:—

“ It is notified for public information that Professor Kemmerer and Dr. Vissering, who have been appointed to advise the Government on the question of the resumption of gold payments on 1st July next, desire to obtain the views of persons interested.

“ Such persons are accordingly invited to forward memoranda, stating briefly their views on the points which they wish to be considered, to Mr. J. J. I. Middleton, Treasury, Pretoria, at the earliest possible date, but in no case later than the 24th instant.”

8. In response to this invitation, ten persons submitted written statements. In addition to the public invitation, your Commissioners invited fifty persons in South Africa to appear before them and give oral testimony, preceded, where possible, by written statements. Of the fifty persons invited, eleven, namely, Mr. Fred. W. Bell, Mr. Thos. B. Herold, Mr. R. A. Hockly (President, S.A. Agricultural Union), Hon. H. C. Hull, Major Hunt (President, Transvaal Agricultural Union), Hon. J. W. Jagger, Professor Leslie, Mr. Cosmo Monkhouse, F.I.A. (General Manager, S.A. Mutual Life Assurance Society), Mr. A. A. Moore (Secretary, Reduction Workers' Association), Mr. Donald Reich (Secretary, Mine Workers' Union), and Mr. I. W. Schlesinger, were, for various reasons, unable to appear. A written statement was received from Mr. Fred. W. Bell, and also from Major Hunt representing the Transvaal Agricultural Union.

9. Your Commissioners desire to record their highest appreciation for the ready assistance and for the helpful co-operation which they received from all witnesses, who in most cases were required to attend at very short notice at times probably extremely inconvenient to themselves. Your Commissioners took evidence during three days in London, and in South Africa during fourteen days in December, and present the following report, which embodies their unanimous conclusions on the subject of their inquiry.

10. Your Commissioners wish to express their sincere appreciation of the splendid co-operation they have received from officials of the Union Government, and particularly from Mr. J. J. I. Middleton, the Under-Secretary for Finance, who was with the Commissioners in London and on the trip to South Africa, and who has given continuous and most efficient assistance throughout all their work; also to Mr. C. W. Pearsall, Senior Clerk in the Office of Census and Statistics, who has rendered the Commissioners invaluable assistance as Secretary to Professor Kemmerer. Your Commissioners also wish to record their appreciation of the valuable assistance they have received from Dr. H. L. de Beaufort, Secretary to Dr. Vissering.

11. Under present conditions the problem practically narrows itself down to the question: Should South Africa, in determining now her future monetary policy, decide to tie up definitely with sterling, hoping that sterling will return to the gold basis soon, but being prepared to follow sterling wherever it may go, or should she decide to tie up definitely with gold. For some time the South African pound has been considerably more valuable than the pound sterling, but not until within the last few days has it been, as measured by exchange rates, as valuable as the gold sovereign. Although bearing the name of a pound, the South African monetary unit has been for several years, both in its gold value and in its value as measured by its purchasing power over commodities, a different pound from the pound sterling. It has responded very incompletely and with substantial lags in time to the ups and downs in the value of sterling. This fact has led to confusion and misunderstanding among bankers, merchants, and the public generally. Your Commissioners believe that South Africa is too small a country, from an economic point of view, to have a monetary standard so independent of the monetary standards of other countries, and that it is clearly to South Africa's interest to tie up definitely either with sterling as Egypt has done, or with gold as Canada is doing. The question is: Which?

12. It has been suggested that South Africa might tie up to sterling, with the condition that, should sterling depreciate in its gold value further than a certain point, say, for example, further than 10 per cent. below gold parity, South Africa should break with it at that point and either wait there for sterling to come back, or then to begin to deflate at once the South African currency towards gold parity. Your Commissioners do not believe that such a plan would be desirable, and they doubt if it would be carried through if once

adopted should sterling depreciate below the limit fixed. This plan, as contrasted with the early adoption of the gold standard, would increase the probability of wide fluctuations in the value of the South African pound—10 per cent. is about a year and a half's interest in South Africa—and would thereby increase the uncertainties and the risks of South African business. It is improbable that, if South Africa should follow sterling down 10 per cent., she would be willing to break with sterling at that point should sterling decline further. The same arguments and sentiments that have prevailed in the past, and that would be determining such a decision in the present, would be likely to prevail in the future. Professor Edwin Cannan recently well said:—"As usual, when currency has once become depreciated, it is a case of 'jam yesterday and jam to-morrow, but never jam to-day.'" (*Economic Journal*, December, 1920, p. 524.) It is usually exceedingly difficult to stop an inflation movement after it has once gained momentum.

13. If, however, the plan were adopted, and if sterling should depreciate below the 10 per cent. limit, and if the plan were then carried out, South Africa would find herself in the awkward position of having a monetary standard that was neither gold nor sterling—her own little standard, different from that of any other country of the world—and she would be confronted with the problem of either immediately undergoing the pains of deflating towards gold parity, or of temporarily debasing her monetary unit to the 10 per cent. gold discount level, while awaiting the return of sterling, and then, when and if sterling should come back to this level, of deflating with sterling to gold parity. This might well take a long time. Your Commissioners see no advantages in such a plan at all commensurate with the risks of serious evils that its adoption would involve.

14. At the time of writing (3rd January, 1925) the London-New York telegraphic transfer rate is quoted as 4.75, or only 2.2 per cent. below gold parity; the South African telegraphic transfer buying rate is $3\frac{1}{2}$ per cent. discount and the selling rate is $2\frac{3}{8}$ per cent. discount, making the mean rate between the buying rate and the selling rate 3.06 discount; so that the South African pound to-day is 0.86 per cent. above gold parity. It has, in fact, been within 2 per cent. of gold parity ever since your Commissioners left London in the latter part of November.

15. The present high sterling-dollar rate is the highest rate quoted since 20th March, 1919, when the rate was "unpegged." The London-New York rate advanced almost continuously throughout the year 1924, beginning with an average rate for the month of January, 1924, of 4.259, or a rate of about $12\frac{1}{2}$ per cent. below gold parity and of about 10 per cent. below the rate of to-day. If the rate should advance half as rapidly during the next six months as it has advanced during the past year, it would be at gold parity before 1st July. The experiences of the

year 1924, the improved situation generally throughout the world as a result of the settlements growing out of the Dawes Committee Report, and the declared policy of Great Britain to carry out the recommendations of the Cunliffe Committee, are all encouraging signs of a speedy return to gold parity. Your Commissioners hope and expect to see sterling at par with gold by 1st July next. In that contingency the situation in South Africa would be practically the same whether she should now decide to tie up with sterling or to tie up with gold.

16. But while expecting sterling to return, to gold parity within the next six months, your Commissioners would not feel justified in basing their recommendations on the assumption that such a return will take place. They recall that the dollar-sterling rate, after advancing from the low figure 3.56 (29th July, 1921) almost continuously to the high figure of 4.72 (21st February, 1923), an advance of 32½ per cent. in about 19 months, and after the public had largely made up its mind that sterling was to return soon to a gold basis, suddenly turned around and declined from 4.72 (21st February, 1923) to 4.28 (17th November, 1923), a decline of 9½ per cent. in 9 months. This fact, together with the great instability of the sterling-dollar rate during the past five years, and the many failures of exchange prophets during that period, are calculated to make one very modest in one's prophecies as to what will happen to sterling during the year 1925. It is sufficient to say if sterling returns to parity by 1st July next, South Africa's problem will have been largely solved.

17. In accordance with present law (Act No. 22 of 1923), South Africa will automatically return to the gold standard 1st July, 1925, unless legislation to the contrary is passed between now and that date. Perhaps in no other field is the old adage "to be forewarned is to be forearmed" the embodiment of a sounder philosophy than in the field of monetary reforms. Dangers cease to be dangers when they are anticipated and when their probable effects can be discounted. The public of South Africa ought to know at the earliest possible date what course is to be taken 1st July, so that they can prepare for it, and this is particularly true of that part of the public upon whom the responsibility will largely fall for making preparations for the resumption of gold payments and for maintaining the gold standard after it has once been re-established. For this reason your Commissioners believe that a decision should be reached at an early date and that a public announcement of the decision should be made promptly.

18. If a decision is to be arrived at now and to be announced promptly to the public, South Africa should be ready to stand by that decision, regardless of what may happen to sterling during the next six months. In the interest of the public, the South African Government should take whatever risk may be involved and assume full responsibility to support the carrying out of the decision.

19. Conditions in South Africa at the present time are favourable to a prompt return to the gold standard—more favourable than they have been at any time since gold payments were suspended (15th December, 1920). For two months and over the South African pound, as measured by the banks' telegraphic transfer rates on London—the mean between the buying rate and the selling rate—taken in connexion with the dollar rate in London, has been very near gold parity, having never been below 2 per cent. of gold parity since the middle of November last. At the time of writing (3rd January, 1925), as previously noted, it is approximately 0.86 per cent. above gold parity, and if a rate so favourable as this continues long, South Africa may find itself practically back on a gold standard with gold coin in circulation long before 1st July.

20. Money is worth what it will buy, and therefore the best test of the value of money is to be found in price index numbers. Fortunately, South Africa possesses for the period 1910 to the present time good index numbers covering wholesale prices of some 188 different commodities. These index numbers show that the wholesale price level here (excluding the price of gold) is lower in relation to the price level immediately preceding the European War than is the price level in any other country of the world for which we have comparable statistics. The following table shows the wholesale price index numbers, for the latest month of 1924 for which figures are available, for twenty different countries. The countries are arranged in the numerical order according to which their currencies, as evinced by their respective price levels, have been deflated toward their pre-war value* :—

1. South Africa	133	(October).
2. Egypt	148	(September).
3. United States	149	"
4. Canada	154	"
5. Netherlands	159	"
6. Switzerland	160	(October).
7. Australia...	162	(September).
8. Sweden	163	"
9. United Kingdom (Board of Trade)	167	"
(<i>Statist</i>)...	166	"
10. Dutch East Indies...	174	(July).
11. British India	179	(September).
12. New Zealand	181	(August).
13. Spain	184	(September).
14. Japan	206	"
15. Denmark	234	"
16. Norway...	275	"
17. France	486	"
18. Belgium	550	"
19. Italy...	580	"
20. Czecho-Slovakia	997	"

* Federal Reserve Bulletin of the United States of America, November, 1924 (page 882).

21. South Africa, it will be noted, heads the list. As measured by her price index numbers, South Africa is to-day deflated more in comparison with the situation immediately preceding the war than gold standard countries like the United States, or than countries whose exchanges have been for some time practically at par with gold, like Canada and the Netherlands. The best evidence available therefore seems to show that South Africa's currency is already deflated not only to the gold standard level, but probably somewhat below. In this connexion it is significant that the South African wholesale price index number rose from 125 for July, 1924, to 133 for October. The return to the gold standard in South Africa would probably require therefore no more deflation. That disagreeable job has already been done during the last four and a half years.

22. It has been claimed that South Africa's price level immediately preceding the European war was abnormally high in comparison with the years just before when compared with other countries. Your Commissioners have made comparisons of the index numbers of South Africa for the years 1910 to 1913 with those of a number of other countries and do not find that the evidence supports this claim. In this connexion it should be added that Mr. C. W. Cousins, who was Director of the Bureau of Census and Statistics of South Africa for the seven years ending 1924, stated in his testimony that he did not believe that the year 1913 was abnormal in this respect in South Africa when compared with other countries.

23. A third favourable factor is South Africa's present strong gold position. The Reserve Bank at the time of writing is carrying the large gold reserve of £10,775,746, representing 64 per cent. of its outstanding notes and deposits combined. The two principal commercial banks in South Africa are holding heavy sterling balances in London. The Pretoria Branch of the Royal Mint was opened January, 1923, and began issuing silver coin in June of that year. It has a capacity for coining 12,000,000 sovereigns a year, and, with few additions to plant and equipment, could increase that capacity to 24,000,000 sovereigns. South Africa can therefore now replenish her supply of gold coins at short notice by simply diverting a small stream from her annual outflow of gold—an outflow which is now back to practically pre-war volume—to her local mint. She no longer needs to wait until gold can be coined in London and shipped to her shores, and, being the premier gold-producing country of the world, producing about three-fifths of the total world's annual product, she can tap the supply at its source, and no country, by embargoes or otherwise, can prevent her from getting promptly all that she is willing to pay for.

24. The fact that the year 1924 has been a successful year for the gold mines, and that the agricultural prospects at the present time in South Africa are excellent, are both favourable to an easy return to the gold standard.

25. If, on the other hand, South Africa should now decide to tie up to sterling, and if sterling should depreciate again as a result of inflation in Great Britain, South Africa would be practically compelled to follow sterling down no matter how low it should go and how long it should continue to decline, and then, later, to follow it back to gold parity, if it should come back in harmony with the declared policy of Great Britain as expressed in the Cunliffe Committee's Report. This would mean that South Africa would be compelled to undergo again all the evils of inflation and then subsequently again to go through all the evils of deflation. Her experiences during the long inflation period, culminating about the middle of 1920, and her subsequent four years and more of deflation experiences, are too recent to make necessary here any long description of the hardships of inflation and deflation. It is perhaps sufficient to recall that a widely fluctuating monetary unit brings a spirit of uncertainty into all business transactions, encourages dangerous speculation, and, with blind injustice, robs one class of people in the community for the benefit of another. When the currency is depreciating and the price level is therefore rising, it is the creditor who is robbed for the benefit of the debtor, the bondholder for the benefit of the stockholder, the labourer for the benefit of the capitalist or the consumer; the insurance-policy holder, the savings bank depositor, and the pensioner for the benefit of stockholders and mortgagors. When the currency is depreciating the cost of living usually advances more rapidly than wages with resulting hardships to wage-earners, labour discontent, and strikes for increased wages. In connexion with the discontent that usually results from inflationary movements, the French have a saying, "The guillotine follows the paper-money press—the two machines are complementary one to the other." When, on the other hand, the currency is appreciating in value and prices are falling, namely, during periods of deflation, the debtor suffers for the benefit of the creditor, the stockholder for the benefit of the bondholder, the farmer or the home buyer with a mortgage on his place for the benefit of the money-lender, the employer and the capitalist for the benefit of the labourer. When the currency is appreciating, wages usually lag behind the cost of living on the decline, with the result that employers find themselves under economic pressure to reduce wages, as the prices of their products are declining, and also to discharge employes. Such reductions and threatened unemployment are usually resisted by labouring men, with resulting labour discontent and strikes. Labour troubles during inflation and labour troubles during deflation are the rule.

26. Both inflation and deflation have their bright spots, but the predominating colour of both is black. Within the last ten years most countries of the world have experienced both, and the world now struggles for monetary stability. Any Government which has the

choice of two monetary policies and deliberately chooses the one which appears to be the more likely to lead to inflation and subsequent deflation, assumes an enormous responsibility to its people.

27. Gold itself, unfortunately, is not highly stable in value, although since the end of the post-war gold deflation period, the middle of 1921, the value of gold has been reasonably stable. The wholesale index numbers of the Bureau of Labour Statistics in the United States—a country which has been on the gold basis throughout this period—have been as follows:—

1921	...	...	...	...	...	147.
1922	...	...	...	...	...	149.
1923	...	...	...	...	...	154.
1924	(10 months)	...	...	...	...	149.

28. The world's experiences with paper-money standards up to the present time have been much less satisfactory than with the gold standard. Managed paper-money standards have proved to be more susceptible to manipulation than is a gold standard, and more likely to vary in value under the pressure of political forces. In saying this your Commissioners do not overlook the reasonable stability of the British price level during the past three years.

29. Under present conditions it seems to us that a gold standard is much more likely to be reasonably stable in value during the next few years than is any managed paper-money standard, and this statement includes sterling in case Great Britain should be unable, or unwilling, to hold sterling at gold parity, now that parity as measured by exchange rates has been practically attained, after years of effort to carry through the Cunliffe Committee's plan.

30. Your Commissioners therefore believe that the wise and conservative action for South Africa to take at this time is to clinch gold parity while it is here and, to that end, to announce to the public at the earliest possible moment the intention of the Government to let existing legislation stand and to return definitely to the gold standard 1st July next.

31. The advantages, briefly summarized, are as follows, which we believe that South Africa will obtain by tying up her monetary unit with gold—a commodity the supply of which on the world's market is so large and the demand for which is so universal that manipulation of its value is always difficult and is destined to be increasingly difficult as the world continues its present rapid return to the gold basis:—

- (a) A greater stability in the value of her monetary unit, namely, in its purchasing power, both internal and external, than she would probably obtain by tying up to sterling in case sterling does not very soon return permanently to gold parity

- (b) Greater stability in interest rates and a lower level of real interest rates, namely, interest rates measured in purchasing power, because the risks and uncertainties incident to an unstable currency are, at least in part, compensated for by variations in the nominal interest rate; and the greater the market's estimate of the risk, the higher will be the charge it will make under the guise of interest to cover the risk.
- (c) Stability of exchange with gold standard countries, which are continually increasing in number, and in which a large proportion of South Africa's exports (e.g. gold and diamonds) find their consumers' market—the market which is most influential in determining the ultimate demand for these products, and therefore in determining the price which South Africa will receive.
- (d) Greater confidence abroad in South Africa and resulting encouragement to the investment of foreign capital here. Conservative capital seeks markets where the prospects of currency stability are good, and will prefer, for some years to come, countries on the gold standard to countries with managed paper standards.
- (e) Greater confidence of labour, which, we have been told, widely believes that it has been taken advantage of by the introduction of inconvertible paper money in South Africa, and which has more confidence that it is "getting a square deal" when it is paid in gold, or in paper convertible into gold on demand, than when it is paid in inconvertible paper.
- (f) A money which in the denominations of 10s. and £1 will be more convenient for many people, particularly labouring people, than are notes, and which will also be much more sanitary.
- (g) A benefit to the gold industry in South Africa through encouraging by example the return of other countries to the gold standard. We have frequently heard abroad statements to the effect that "if South Africa, the largest gold-producing country in the world, cannot, or will not, return to the gold standard, how can our country be expected to do so."

32. In mentioning the advantages of a return to the gold standard, your Commissioners are not blind to certain very real disadvantages that South Africa will suffer if she breaks entirely with sterling, and if sterling should fluctuate for some time rather widely in terms of gold. Any alteration in a country's monetary standard—no matter how desirable it may be as a long-run policy—is bound to affect some interests adversely over considerable periods of time and many interests adversely during a brief transitional period. South Africa will be no exception to this rule if sterling should again depreciate sub-

stantially. In the judgment of your Commissioners, the greatest disadvantage that South Africa is in danger of suffering is that incident to a more variable exchange rate than she has had in the past with Great Britain, the country with which she carries on the major part of her foreign trade. While not wishing to belittle this disadvantage, your Commissioners would call attention to the fact that there are certain offsetting factors, and that, estimating the disadvantages and the advantages that are likely to result from a fluctuating exchange, the following fundamental principles should always be taken into account:—

- (a) There is no permanent advantage to the exporter or permanent disadvantage to the importer in a high rate of exchange; and likewise there is no permanent advantage to the importer or permanent disadvantage to the exporter in a low rate of exchange. Neither party gained, for example, and neither party lost prior to the European war in the trade between France and Germany by reason of the fact that the gold value of the franc was about 20 per cent. lower than the gold value of the mark. Prices and wages in both countries had long been adjusted to these differences in the gold value of their respective monetary units. It is not a question, therefore, of high rates of exchange, or low rates, but of changing rates. Whatever advantages and disadvantages occur, result only from rising rates of exchange and falling rates of exchange.

These advantages and disadvantages are, at best, temporary in character, continuing only during the period of the lag in the adjustment of prices, wages, and exchange rates to a new equilibrium level, and these readjustments are effected to a very large degree in most countries—usually within a few months' time.*

The evidence available to us here seems to show that this conclusion applies to South Africa. Whatever benefits the exporter or importer receives from these temporary maladjustments between exchange rates, prices, and wages, he is soon compelled by the forces of competition to pass on to others.

In order that the exporter might benefit continuously, it would be necessary to have a monetary unit that was continually declining in value in comparison with the unit of the country to which the bulk of the exports were being sent. No sane person would advocate a permanent monetary policy of that kind in order to benefit the export trade.

* In this connexion your Commissioners would call attention to the data on "Purchasing Power Parities" published in the recent reports of the "Commission of Gold and Silver Inquiry of the United States Senate," and the volume recently published by the U.S. Tariff Commission on "Depreciated Exchange and International Trade."

- (b) Every movement of the exchange that benefits the exporter, per contra harms the importer, and every movement that benefits the importer harms the exporter. Inasmuch as most concerns in South Africa that produce heavily for export are required to import from abroad supplies and equipment, gains on the one side from a given movement in exchange are likely to be offset completely or largely by losses on the other side. Taking into account both visible and invisible items of trade, a country's exports and imports must be equal, so that, taking a long-run view of the situation, what a country gains on the side of exports by a fluctuating exchange, it is likely to lose on the side of imports, and vice versa. If South Africa should now return to the gold standard, and if gold should continue reasonably stable in value as it has during the past three years, and if sterling should depreciate rapidly for a time and then turn around and come back to gold parity, the South African exporter would suffer while the decline was in process and for a few months after bottom should have been reached, because the prices he would presumably realize in Great Britain for his exports would probably not rise as rapidly as the value of sterling would decline in terms of the South African pound. During this period the South African importer would benefit, for the amount of sterling his South African pound would buy would probably be increasing more rapidly than would the prices in Great Britain of the goods he was purchasing; but if the declared policy of Great Britain, as embodied in the Cunliffe Committee's Report, was still to be carried out, the depreciation of sterling would need to be followed by a subsequent appreciation, and during the period of the appreciation the South African exporter would benefit and the South African importer would suffer because prices would probably not go down in Great Britain as rapidly as the price of sterling in terms of South African pounds, i.e. the sterling exchange rate in South Africa would rise.
- (c) The risks incident to a fluctuating exchange can be to a large extent avoided, and in most important countries are so avoided, by the simple expedient of making forward exchange contracts. An exporter, for example, who is buying wool now for shipment say 60 days hence, which he has already sold in London for £10,000, and who does not wish to assume the risk of a decline in the exchange between now and the date on which he is to sell his export bill to the bank, namely, does not wish to gamble on exchange—goes to his banker and tells him that he will have £10,000 sterling of demand wool-bills to sell 60 days or so hence, and he asks

the banker to quote him now a rate at which the bank will agree to buy these bills when they shall be presented 60 days later. The banker quotes him a rate and he accepts it. Now, no matter what happens to the exchange rate during the next 60 days, the wool exporter is safe. If the rate goes down he does not lose, and if it goes up he does not gain. He is a wool exporter and knows wool, but he does not know the intricacies of exchange. He wisely "sticks to his last" and lets the banker, whose business it is to deal in exchanges, assume the risk of what will happen to exchange during the next 60 days. The wool exporter, of course, must pay the banker a small compensation in one form or another for rendering him this service.

At about the same time, we will say for illustration, a merchant who is contemplating the importation of machinery from Great Britain that will cost £10,000 sterling, and which must be paid for 60 days hence by a demand sterling draft for £10,000, likewise does not want to run the risk of exchange fluctuations between the time he has ordered his machinery and the date for making payment. He likewise explains his situation to his banker, and the banker now agrees to sell him a demand draft 60 days hence for £10,000 sterling at a certain rate. The importer now knows what to count upon, not only what he must pay for his machinery in sterling, but also what he must pay for his sterling in South African pounds, in terms of which he has contracted to sell his machinery or will sell it. If during the next 60 days the exchange rate rises, the importer of machinery does not lose, and if it falls he does not gain. He likewise has shifted the risk of exchange to a banker whose business it is to deal in such risks.

But the banker meanwhile has not assumed any appreciable risk: he has hedged. The sterling that will be paid to the credit of his London account out of the proceeds of the wool-bill which he will receive 60 days hence, will provide the funds in London out of which the draft will be paid which he must deliver to the machinery importer sixty days hence.

The bank's profits come from the margin between its buying rate and its selling rate. If the bank believes that sterling will go down in the near future, it may sell more sterling futures than it buys, namely, oversell; and if it believes that sterling will rise in the near future, it may buy more sterling futures than it sells, namely, overbuy; but in either of these cases it is speculation. The conservative banker tries to keep his forward contracts for purchases covered by forward contracts for sales, and thereby limits his profits to interest, commission, and the margin between his buying and selling rates.

33. Your Commissioners have been surprised to learn that the making of forward contracts in exchange is almost unknown in South Africa, and they believe that the introduction of this practice would be highly desirable in any event, and particularly so if South Africa returns to the gold standard independently of Great Britain and if sterling exchange rates prove to be unstable in the future. The Reserve Bank might well render valuable assistance by encouraging the introduction of the use of forward exchange contracts, both by making such contracts directly with the public and by assisting the commercial banks in getting cover at times when the exchange operations in the two directions are not reasonably well balanced. In this connexion, the Reserve Bank might be aided by the Government through a timely distribution of Government transfers.

34. Before leaving this subject of the disadvantages of an unstable exchange with the country with which you are carrying on your principal business, it should be noted that there are very few stable international exchanges in the world to-day, and that most countries, including Great Britain, the United States, France, Germany, Holland, and Italy, are carrying on the principal part of their foreign trade with countries with which they have unstable exchanges. One important reason why this is possible without greater inconvenience is the widespread use of forward exchange contracts.

35. Another disadvantage in South Africa's breaking with sterling that is of sufficient importance to demand brief discussion, is the disadvantage of her doing her public borrowing in a market having a monetary standard different from her own. It is argued that South Africa's political, commercial, and financial ties are chiefly with Great Britain; that she must borrow frequently for public purposes, and that London is the natural market for her to borrow in. London knows South African conditions better than does any other great money market, and, for this reason, will presumably give her better terms than she could obtain elsewhere. If, then, it is argued, South Africa should return to the gold standard while sterling should continue to be an inconvertible paper-money standard, South Africa might suffer a serious handicap in borrowing in London. Let us assume, for example, that at the time South Africa returns to the gold standard the bank's buying exchange rate here for sterling telegraphic transfer is 95, that that rate has persisted for several months, and that prices and wages have been so adjusted that this rate represents approximately purchasing power parity between South Africa and Great Britain. Under such conditions, if South Africa borrows £10,000,000 sterling in London on bonds maturing in twenty years at 5 per cent. interest, payable semi-annually, she would receive either £10,000,000 sterling in London or £9,500,000 South African here; but since, by hypothesis, £95 here would have the same purchasing power, and

therefore the same value, as £100 would have in London, it would make no difference to South Africa whether the proceeds of the loan were transferred to the Government here in British goods or in South African money or goods. There would be a nominal difference of £500,000, but no real difference. If gold should remain stable in value during the period of the loan and sterling should remain at 95, the loan would cost South Africa 5 per cent., because at the maturity of the loan she would be able to purchase £10,000,000 sterling for the redemption of the bonds at the price of £9,500,000 South African. But if sterling should advance to gold parity by the time the loan matured, South Africa would be required to pay back the equivalent of £10,000,000 South African, whereas she received only £9,500,000 South African or its equivalent. In addition to this, she would have paid most of her interest during the period of the loan in a more valuable monetary unit than the one she received, so that the loan would cost her about 5.4 per cent. in addition to this interest agio item.

36. If, however, at the time that South Africa borrowed the £10,000,000 sterling there was a strong prospect that sterling would appreciate to gold parity within a short time, and if, as a consequence of this prospect, foreigners were buying sterling securities heavily as a speculation, the interest rate on long-time loans would probably be considerably lower in London than, say, in a gold standard money market like New York, because in dollar loans there would be no such expectation of a substantial exchange profit. The nominal rate of interest, therefore, would be lower, and should be lower, for sterling loans in England than for dollar loans in New York by an amount representing the market's estimate of the value of this prospect for an approximately 5 per cent. rise in the value of sterling during the life of the loan. If such a rise were practically certain within the twenty years the loan was to run, a London sterling rate of interest of 5 per cent. would be approximately equivalent to a New York dollar rate of interest of 5.4 per cent. (exclusive of the agio in the annual interest payments). On the other hand, if South Africa, by borrowing sterling, should put herself in a position to lose by a rise in sterling during the life of the loan, she would also put herself in a position to gain should sterling decline during the life of the loan.

37. Another compensating factor is the probability that South Africa's credit-standing abroad would be improved by the fact that South Africa had stabilized her currency on a gold basis.

38. After all is said, however, there is no denying the claim that it is a risky policy for any country to borrow heavily in another country which has a monetary standard different from its own when that standard is a managed paper-money standard.

39. While such conditions continue, South Africa would do well, in the judgment of your Commissioners, to reduce her public borrowing to the minimum, and to do such borrowing as may be necessary, as far as possible, on a gold basis either at home or abroad.

40. A few witnesses have made much of the claim that South Africa is not in a position to maintain the gold standard independently of Great Britain. Your Commissioners have no anxiety on this point, and they are confident that, unless this country has recourse to a policy of currency and credit inflation, she will have no difficulty in maintaining gold payments after they have once been resumed. South Africa successfully maintained the gold standard for many decades prior to the European war, and your Commissioners see nothing new in the present situation of a character to prevent her maintaining it successfully in the future. In fact, there are certain new elements in the situation which should strengthen her position. The recent establishment in Pretoria of a branch of the Royal Mint will enable South Africa to mint sovereigns here, and by so doing to meet her needs for specie more promptly than in the past. Then, too, the new Reserve Bank, through its centralization of the country's bank reserves, its liberal powers of note issue, its rediscount functions, and its authority to operate in the open market, is in a position to exercise a conserving influence on the South African money market and to check any dangerous credit expansion that may seem to threaten the gold standard.

41. South Africa is now producing practically as much gold per annum as she produced before the war, and is producing a substantially larger percentage of the world's total production of gold than she did in 1913. On the other hand, only a small part of the world is now on the gold standard as compared with pre-war years, and therefore exercising much of a monetary demand on South Africa's product. The United States, which now holds about $4\frac{1}{2}$ milliards of dollars of monetary gold, or nearly half of the world's total supply, has much more gold than it needs for maintaining a stable gold standard under present conditions, and could probably release upwards of 2 milliard dollars of her present supply without deflation or danger to her gold standard. That large amount is practically impounded awaiting the day when the world will want it back for the restoration of the gold standard. The United States is a free gold market and will undoubtedly let this gold go out freely to any country that wishes it and is willing to pay the market price. The danger, therefore, that the world will want South Africa's 12 to 14 million pounds of gold specie so much as to be willing to pay more for it than South Africa is willing to pay in order to enjoy the advantages of the gold standard, is very remote.

42. Gold, like any other commodity, seeks the best market; in other words, goes to the highest bidder. It has been our experience that gold when it leaves any gold standard country in undue quantities is usually pushed out by paper money and deposit currency inflation at home—not drawn out by newly created demands from abroad. Whenever a country inflates its currency and circulating credit, it makes its currency relatively redundant at home and therefore relatively cheap; its money, therefore, seeks the better markets which are abroad. The outflow of currency takes the form of an exportation of gold since the country's paper money and silver money cannot be used abroad. As gold specie goes out (or into the arts), the currency is contracted and money at home becomes increasingly scarce, bank reserves decline, banks curtail their loans, discount rates tend upward, and prices tend downward—particularly the prices of the more sensitive commodities—commodity imports are retarded, while exchange rates are high and commodity exports are stimulated. Exchange rates finally recede from the gold-export point and gold stops going out because it has become more valuable as money at home than it is abroad. But if the country refuses to let these restricting influences operate and keeps pumping more paper money into circulation or expanding its deposit credits through excessive loans, to take the place of the gold going out, the drain of gold will, of course, continue until the gold is all gone and the gold standard is broken down. Any rapid depletion of the country's gold reserves under such circumstances will weaken public confidence in the currency, and by so doing will cause runs on the gold reserve, thus accelerating the rate of its depletion. Unless, however, the gold is being pushed out of the country by inflation, there is no more reason why a country's currency should starve because of an undue exportation of its gold specie than that its people should starve because of an undue exportation of its mealies. Under ordinary circumstances an outflow of specie is simply a proof that the supply of money at home is relatively redundant, and the outflow is merely part of the machinery by which the excessive supply is drained off and the gold standard maintained through the adjustment of the amount of money in circulation to the changing trade demands.

43. This brings your Commissioners to their last problem: What action should South Africa take to strengthen her position for returning to the gold standard 1st July next and for maintaining that standard after it has once been restored?

44. In this connexion the principal suggestions your Commissioners have to make relate to the functioning of the Reserve Bank.

45. The Act creating the Reserve Bank was assented to on 16th August, 1920, namely, shortly after the time when the post-war currency and credit inflation in South Africa, as well as of Great Britain, the United States, and many

other countries, was at its maximum, and just as the long period of after-war world deflation was setting in. Most of the Reserve Bank's history, therefore, until recently, has been during the period of South Africa's deflation, a deflation that was necessary if the country was to return to the gold basis without reducing the gold-content of its sovereign. A period of deflation is no time for a newly organized central bank to extend its business by low rates and liberal credits either to the banks or to the public. The long period of deflation, however, is now apparently over, and, with the prospective return of South Africa to the gold standard in the near future, the time is opportune for considering the question of the proper functioning of the Reserve Bank under the new order of things.

46. In the judgment of your Commissioners, a country like South Africa, with only three commercial banks—one of which is small—does not offer an adequate field of operation for a Reserve Bank that is exclusively, or almost exclusively, a banker's bank. A central bank, possessing a monopoly of the banknote issuing privilege and holding in its vaults the legal reserve money of other banks, in any country, would be a quasi-public institution "affected with a great public interest." The first duty of such a bank is to serve the public. This it does through conserving the money market by preventing undue credit expansion or undue credit contraction, by maintaining the monetary standard through regulating the supply of currency to the varying demands of trade and through assuring the public, as far as possible, equitable rates of discount and exchange. To perform these functions properly, a central bank must be ready at any time to operate in the open market, in order, by so doing, to make its rates effective and thereby enforce its policy; otherwise the commercial banks, so long as they did not need to call upon the central bank for aid, might refuse to follow its leadership and so prevent it from discharging its duties to the public. To some extent, therefore, open market operations directly with the public are absolutely necessary even by a Reserve Bank if it is to perform its functions properly.

47. A second reason why a central bank should have reasonable powers of dealing directly with the public is to enable it to earn sufficient to cover its expenses, build up a reasonable reserve, and to pay adequate dividends on its capital during normal times, when "the market is outside the bank," in other words, when market conditions are such that the commercial banks are making no demands upon the Reserve Bank for advances. A central bank whose existence is desirable in the interest of public welfare should be self-supporting. Self-preservation is heaven's first law for such a bank as it is for an individual. This means that it should be in a position to earn a moderate income at all times. If, however, it is to be always strong, and its assets are to be highly liquid so that it may be always prepared to meet emergency demands, such earning

assets as it may hold in normal times should consist wholly of high-grade liquid paper, the bulk of which should be self-liquidating commercial paper of short maturities.

48. In order, therefore, that the Reserve Bank may function so as to perform effectively the duties which the public imposes upon it, and that it may be self-supporting, your Commissioners believe that it should operate in the open market in the future much more actively than it has in the past. For this purpose its present statutory powers are broad and nearly adequate, but your Commissioners believe that, in view of the limited amount of high-grade short-time commercial paper now available in the South African market, there should be some extension of the bank's power to make advances. The following suggestions requiring minor changes in the present law are therefore made:—

- (1) That the Bank be authorized to lend money to the public or to the banks for periods not exceeding 120 days on bills or one-name promissory notes, secured by warehouse receipts against staple commodities fully insured and possessing broad and active markets, to an amount in each case not exceeding 75 per cent. of the value of such commodities at current market prices. The granting of this authority would require some modifications in South Africa's present laws regarding warehouse receipts. Bills and notes so secured play an important rôle in the portfolios of the central banks in many other countries, and your Commissioners see no reason why they should not be held, under proper restrictions as to their character, by the Reserve Bank of South Africa.
- (2) That the Bank be authorized to lend directly to other banks on the promissory notes of said banks with maturities not exceeding fifteen days, secured by any collateral properly endorsed that it is legal for the Bank to rediscount. Your Commissioners believe further that the Reserve Bank might safely be authorized to accept as collateral for such short-time loans Union Government securities, or securities of a local governmental authority of the Union, and that such collateral securities might safely be made to include such governmental securities as have maturities exceeding six months, to an amount which, when added to the amounts of such governmental securities with maturities exceeding six months owned by the Reserve Bank, and mentioned in the succeeding paragraph of this report, shall not exceed the total amount of the Reserve Bank's paid-in and unimpaired capital.
- (3) That the Reserve Bank should be permitted to invest in Union Government securities and/or securities of a local authority in the Union with maturities exceeding six months an amount which, when added to the amount of such governmental

securities held as collateral for advances of fifteen days or less, mentioned in the preceding paragraph of this report, shall not exceed the total amount of the Reserve Bank's paid-in and unimpaired capital.

- (4) That the limit of the usance for bills, notes, and other commercial paper discountable by the Reserve Bank at the time such discount is made be extended from 90 days to 120 days (article 13 of the Reserve Bank Act). Your Commissioners are informed that there is considerable high-grade 120-day commercial paper in the Union, and they see no reason why, in meeting the need for extending the field of operations of the Reserve Bank, this paper should not be made eligible for discount and/or rediscount by the Reserve Bank.
- (5) Article 17, paragraph 2, of the Reserve Bank Act provides that "... the Bank may, with the consent of the Treasury, hold gold balances outside the Union in the custody of its own branches or agencies, or deposited in other banks earmarked for the Bank's account, to an amount not exceeding one-fourth of the total reserve requirements."

This apparently prevents the Bank, no matter how much its gold reserves may exceed the 40 per cent. normal minimum required by law to be held against its outstanding notes and its deposits, from holding more than one-fourth of this amount in the form of earmarked gold abroad.

Your Commissioners recommend that the last proviso of the above article be amended by deleting its last phrase beginning with the words "to an amount," and substituting in place thereof the following:—

"provided that the gold held in the Union does not fall below 75 per cent. of the normal legal reserve requirements."

A corresponding alteration should be made in article 23 of the Act. The Bank should not be restricted by law as to the physical location of assets in the form of gold coin or bullion which it owns in excess of legal requirements. Conditions might arise in which there would be a distinct advantage to the Bank to convert earning assets located abroad into earmarked gold abroad, and the Bank should be free to do so whenever its interests seemed so to require.

49. The following administrative changes are also suggested for the purpose of enabling the Reserve Bank to function more effectively:—

- (1) That in order to afford the Bank broader facilities for enabling it to earn profits sufficient to pay its expenses and, more importantly, to enable it to exercise a stronger control over the money market, it should be encouraged to invest in the Treasury bills

of the Union Government having maturities of not greater than ninety days, and that to this end the Union Government should again issue such ninety-day Treasury bills and co-operate with the Reserve Bank and with the other banks in every way possible to create in South Africa a broad and active market for such bills.

- (2) That the present campaign to further the wider use of trade acceptances in lieu of open accounts in the Union should be encouraged, and that to this end it is desirable that merchants should give preferential terms to purchasers who are willing to accept such bills in lieu of obtaining credit on open accounts; that commercial banks should give rates that are more preferential than those now prevailing to merchants who obtain their advances from the banks by discounting such bills as compared with merchants who borrow from the banks on current account, viz., overdrafts, or on one-name promissory notes; and that the Reserve Bank give substantially preferential discount and rediscount rates on trade acceptances.
- (3) That the Government should look forward to the time when it will use the Reserve Bank as the chief depository of Government funds and should gradually increase the proportion of its funds that are kept on deposit in the Reserve Bank. If a commercial bank needs the use of Government funds, it should obtain them by loans or rediscounts from the Reserve Bank, not by Government deposits. The Reserve Bank is in a better position than is the Government to measure such needs and to control such advances. In lieu of the interest which it now receives on its funds deposited in commercial banks, the Government would receive increased returns from its participation in the profits of the Reserve Bank.
- (4) That the Reserve Bank should open branches at early dates in the principal cities of the Union and a branch in London.

50. A return to the gold standard will render useless article 32 of the Reserve Bank Act, which has always been rather ineffective. This article provides that—

“No person shall make a charge for receiving or cashing any bank-note or gold certificate issued in the Union, and no person may sell or purchase any bank-note or gold certificate issued in the Union or any coin current in the Union for an amount exceeding its face value; and any person acting in contravention of this section shall be guilty of an offence and liable on conviction to a fine not exceeding £500, or to imprisonment for a period not exceeding two years or to both such fine and imprisonment.”

It is therefore recommended that this article be repealed.

51. With the return of the Union to the gold standard, the present gold certificates will no longer be necessary, and, as they tend to replace Reserve Bank notes in the country's circulation, your Commissioners recommend that they cease to be issued, and that those now outstanding be promptly retired after 1st July.

52. The effective functioning of the gold standard requires that all restrictions on the free movement of gold coin and bullion into and out of the Union, and all restrictions on the melting of gold coin, be withdrawn, and your Commissioners therefore recommend that this be done, and that the market for gold in South Africa be made an absolutely free market.

We are, Sir,

Your obedient servants,

E. W. KEMMERER.

G. VISSERING.

Pretoria, 8th January, 1925.

FORM OF QUESTIONNAIRE

1. Are you in favour of South Africa returning to the gold standard on 30th June, 1925, without any restrictions?

2. Do you think that South Africa should take steps independently of Great Britain to return to the gold standard?

3. If your answer to 2 is negative, do you think that South Africa should do anything, or nothing, to protect her currency from following the pound sterling in any possible future depreciation?

4. Are you in favour of South Africa adopting the policy of a gradual return to the gold standard, such, for example, as was proposed in England in the year 1820?

5. What would be the effect of South Africa returning to the gold standard independently of Great Britain—

(a) on prices:

(b) on wages:

(c) on production:

(d) export trade:

(e) import trade:

(f) the Union Government's finances?

6. If South Africa returned to the gold standard independently of Great Britain, would the premium on South African money tend to the export of capital from South Africa and, conversely, hinder capital from flowing to South Africa; or, on the other hand, would the return to the gold standard attract capital to South Africa?

7. What would be the effect on the exchange rates between South Africa and Great Britain if South Africa should return to the gold standard in advance of Great Britain?

8. If it could be assumed that Great Britain in the course of the next twelve months would resume a free gold basis, should South Africa take any present steps in contemplation of her simultaneously resuming a gold basis?

9. If South Africa should return to the gold basis 30th June, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?

10. What functions should the Reserve Bank perform in this connexion?

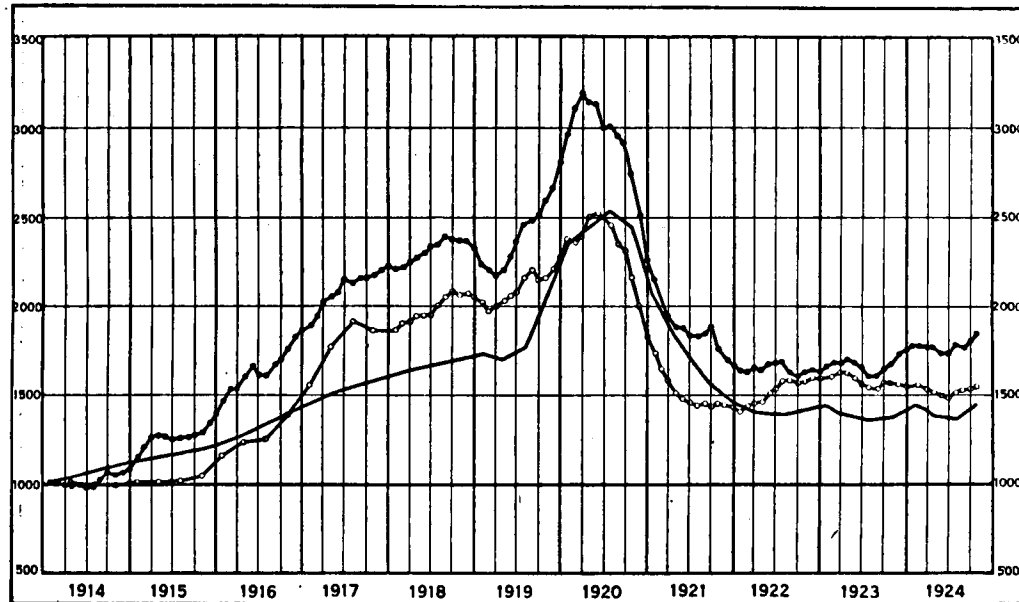
ANNEXURES.

ANNEXURE 1.

WHOLESALE PRICES IN UNION OF SOUTH AFRICA, UNITED KINGDOM, AND UNITED STATES OF AMERICA.

AANHANGSEL 1.

GROOTHANDELSPRIJZEN IN UNIE VAN ZUID-AFRIKA, VERENIGD KONINKRIJK EN VERENIGDE STATEN VAN AMERIKA.



UNION OF SOUTH AFRICA (CENSUS OFFICE)
UNIE VAN ZUIDAFRIKA (CENSUS KANTOOR)

UNITED KINGDOM (ECONOMIST)
VERENIGD KONINKRIJK (ECONOMIST)

UNITED STATES OF AMERICA
(LABOUR BUREAU)
VERENIGDE STATEN VAN AMERIKA
(ARBEIDSBUREAU)

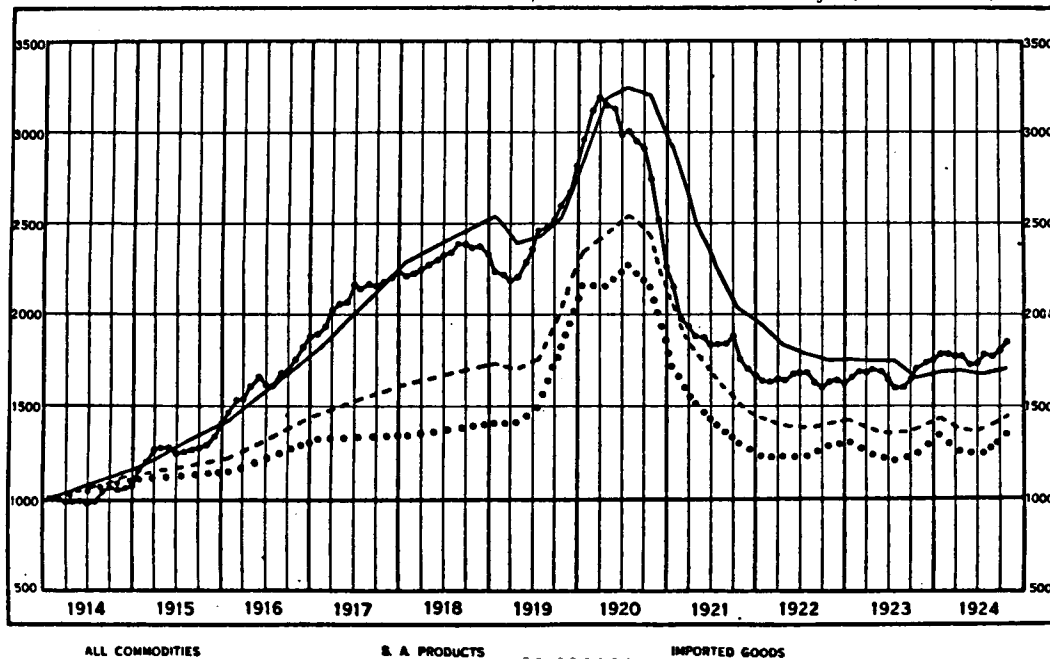
BASE JANUARY 1914 = 1,000
NIVEAU JANUARIE 1914 = 1,000

ANNEXURE 2.

WHOLESALE PRICES OF UNION OF SOUTH AFRICA CLASSIFIED AS ALL COMMODITIES, SOUTH AFRICAN PRODUCTS AND IMPORTED GOODS, THE LAST COMPARED WITH THE UNITED KINGDOM (*ECONOMIST*).

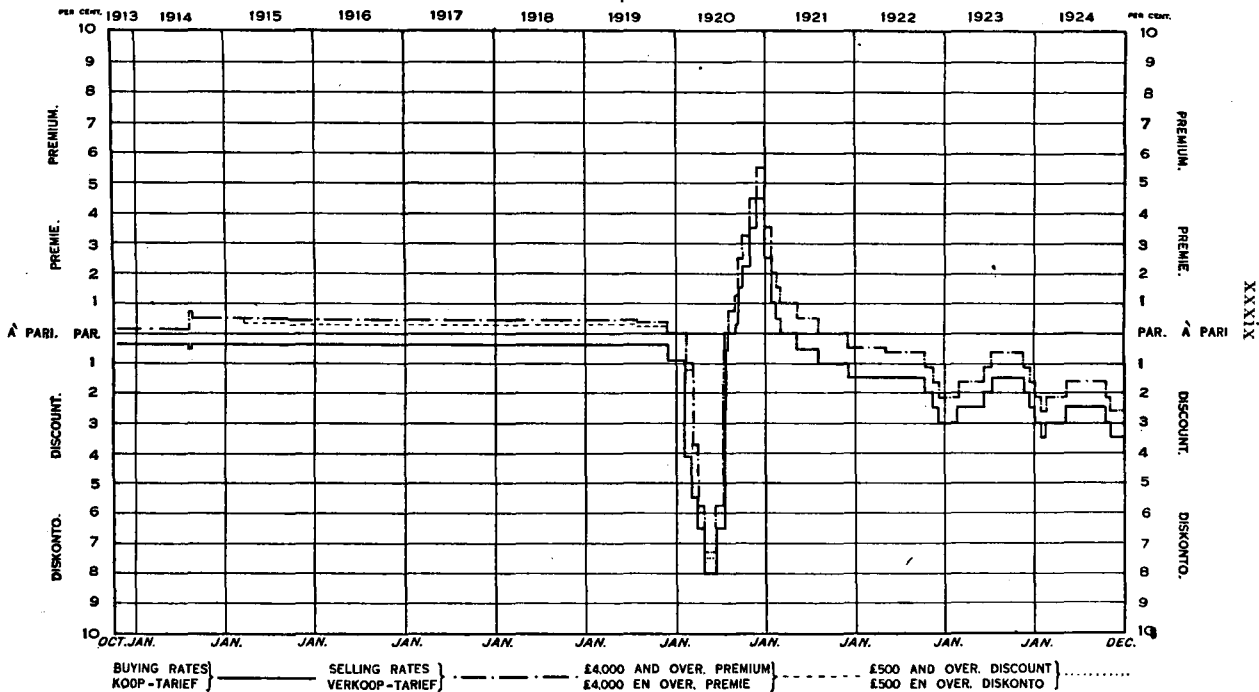
AANHANGSEL 2.

GROOTHANDELSPRIJZEN VAN UNIE VAN ZUID-AFRIKA GERANGSCHIKT ALS ALLE LEVENSBEHOEFTE, ZUIDAFRIKAANSE PRODUKTEN EN INGEVOERDE GOEDEREN, DE LAATSTE VERGELEKEN MET HET VERENIGD KONINKRIJK (*ECONOMIST*).



SOUTH AFRICA ON LONDON—TELEGRAPHIC
TRANSFER RATES, 1913—1924.

ZUID-AFRIKA OP LONDEN—TELEGRAFIESE
TRANSFERTEN-TARIEF, 1913—1924.

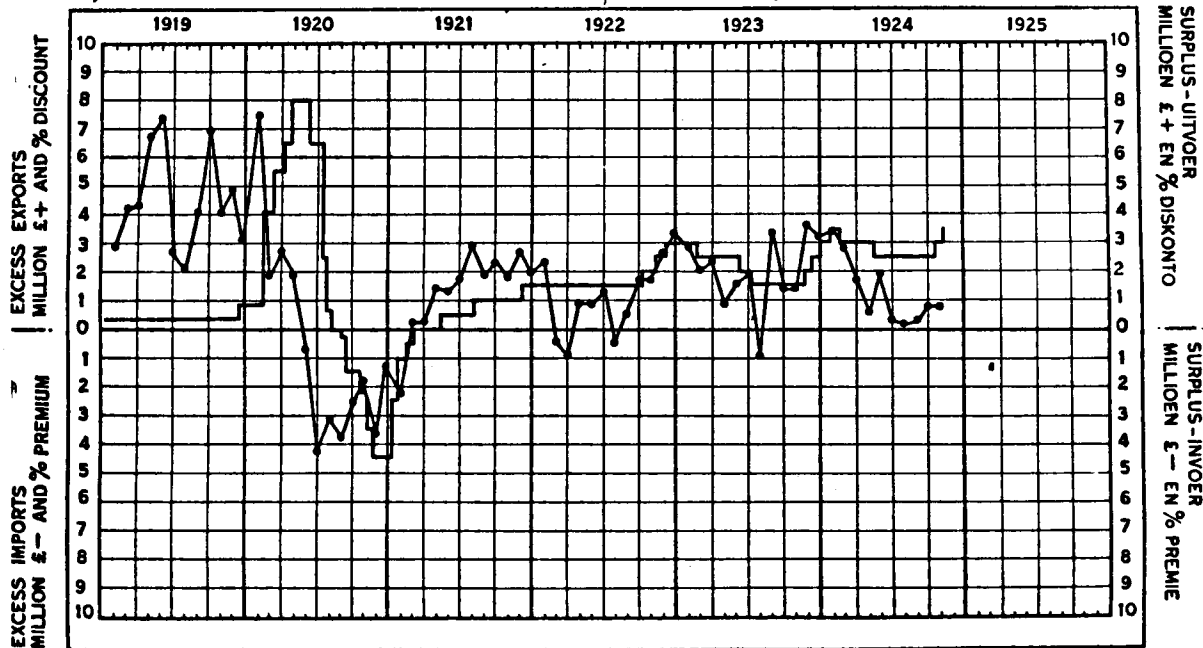


ANNEXURE 6.

AA.VA.ANGSEL 6.

COMPARISON OF CHANGES IN THE EXCHANGE RATE ON LONDON WITH THE MONTHLY BALANCE OF VISIBLE TRADE OF THE UNION, 1919-1924.

VERGELIJKING VAN WIJZIGINGEN IN DE WISSELKOERS OP LONDON MET HET MAANDELIJKE ZICHTBARE HANDELSALDO VAN DE UNIE, 1919-1924.



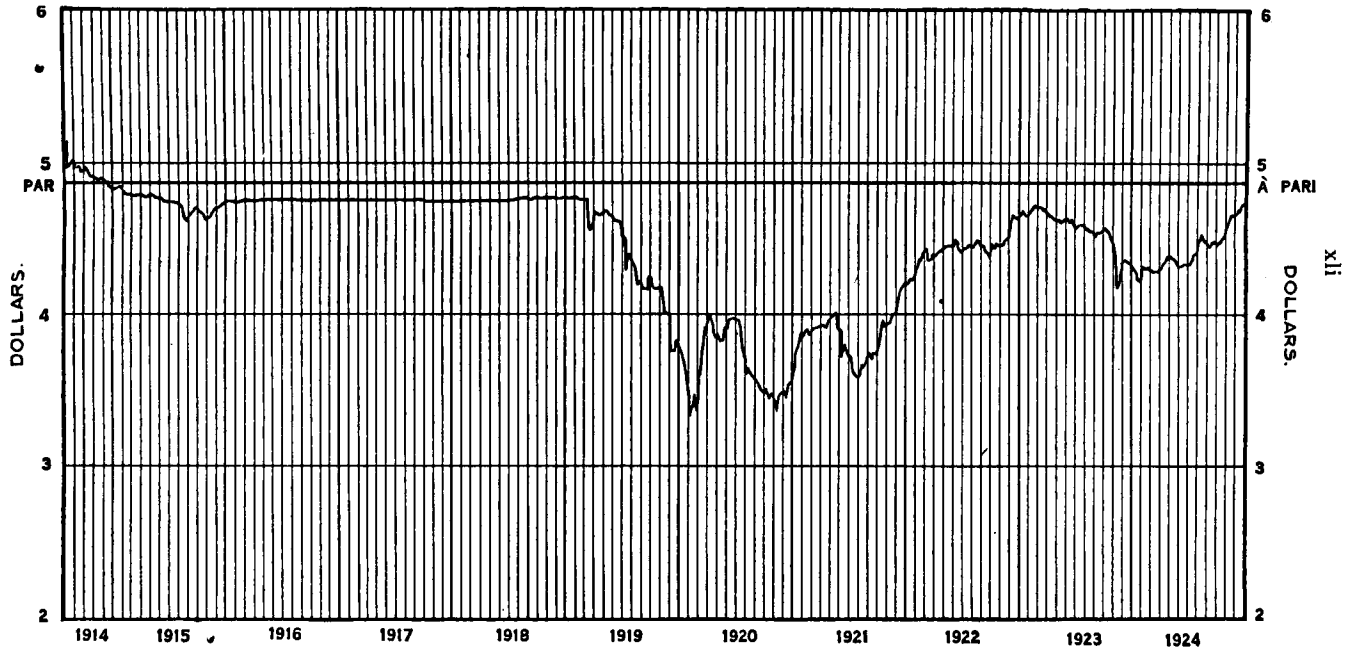
BUYING RATE TELEGRAPHIC TRANSFER ON LONDON
 KOOP-TARIEF, TELEGRAFIESE TRANSFERTEN OP LONDEN

ANNEXURE 7.

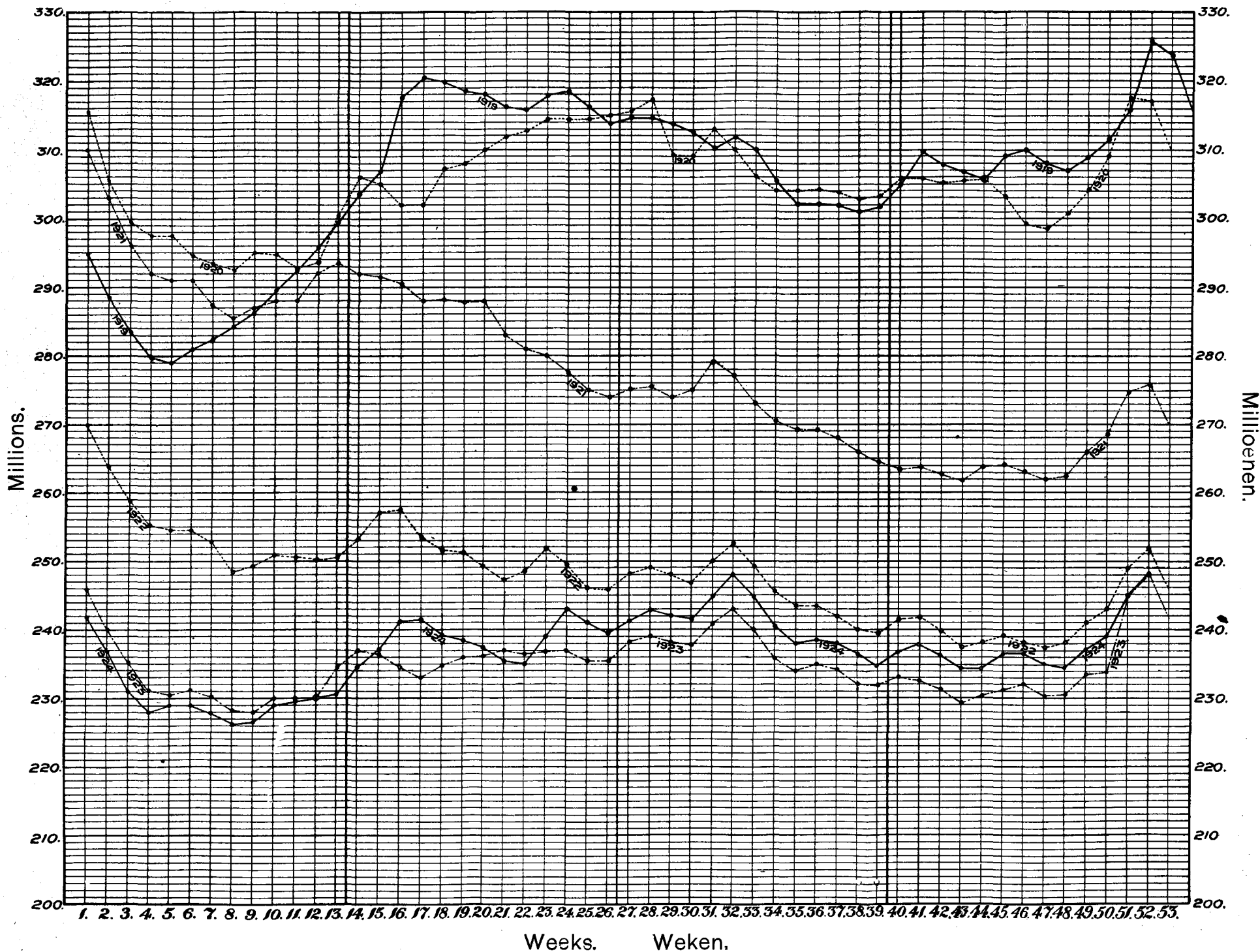
COURSE OF AMERICAN EXCHANGE—LONDON
ON NEW YORK, 1914 TO 1924.
VALUE OF THE POUND STERLING EXPRESSED
IN DOLLARS.

AANHANGSEL 7.

AMERIKAANSE WISSELKOERS—LONDEN OP
NEW YORK, 1914 TOT 1924.
WAARDE VAN HET POND STERLING IN DOLLARS
UITGEDRUKT.



FIDUCIARY CIRCULATION OF BRITISH CURRENCY NOTES.
 FIDUCIAIRE CIRKULATIE VAN BRITSE BETAALMIDDEL-NOTEN.

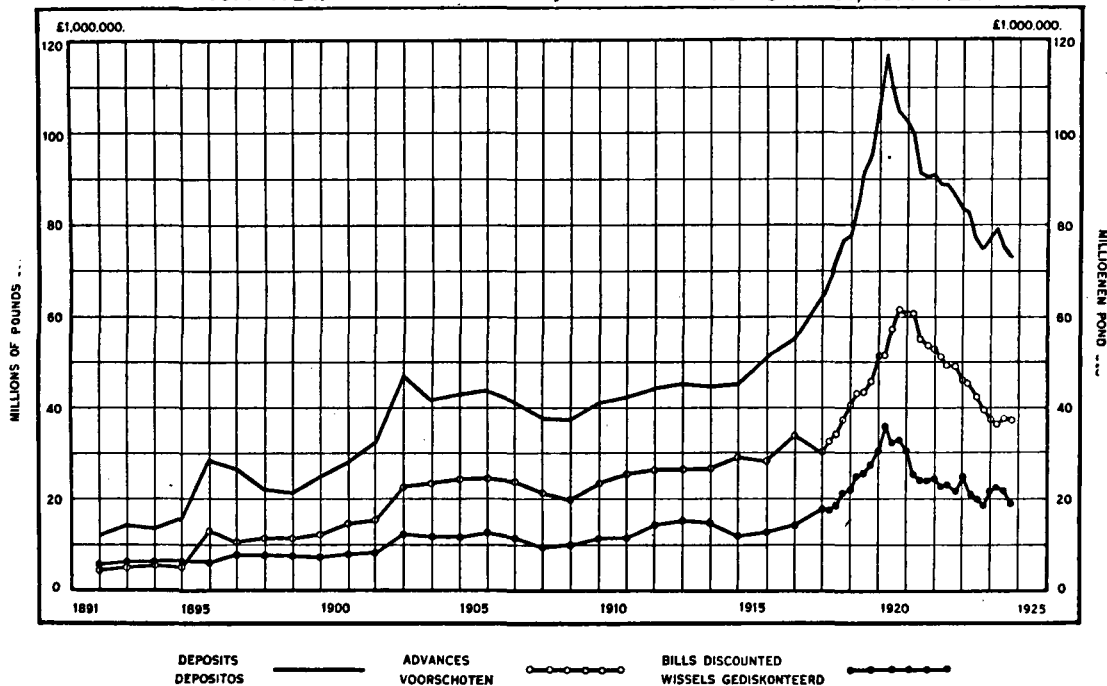


ANNEXURE 9.

SOUTH AFRICAN COMMERCIAL BANKS.
DEPOSITS, BILLS, AND ADVANCES,
1891-1924.

AANHANGSEL 9.

ZUIDAFRIKAANSE HANDELSBANKEN.
DEPOSITO'S, WISSELS EN VOOR-
SCHOTTEN, 1891-1924.



ANNEXURE 10.

SOUTH AFRICAN RESERVE BANK.

Highest liability figures shown in any month in the Bank's Statutory Weekly Statement.

Date.	Notes.	Deposits.	Coin, Gold Bullion, and Gold Certificates.	Discounts and Advances.	Ratio of 3 to 1 and 2.
	1*.	2.	3.	4.	5†.
	£m.	£m.	£m.	£m.	Per Cent.
1921.					
July 30.....	—	5·8	5·4	·7	92·6
Aug. 27.....	—	7·2	6·0	1·7	83·0
Sept. 10.....	—	7·4	6·0	2·0	80·7
Oct. 29.....	—	7·3	5·3	2·8	72·8
Nov. 26.....	—	7·1	5·3	2·8	74·9
Dec. 24.....	—	7·1	5·3	2·8	74·9
1922.					
Jan. 28.....	—	7·4	5·1	3·3	69·3
Feb. 18.....	—	7·4	5·1	3·3	69·3
Mar. 11.....	—	7·4	5·1	3·3	69·5
April 29.....	·5	6·2	5·6	2·2	82·8
May 27.....	·8	6·3	5·9	2·2	83·0
June 24.....	2·9	6·7	7·3	3·3	76·4
July 29.....	6·4	5·6	9·4	3·6	78·6
Aug. 26.....	7·4	5·1	10·1	3·4	81·2
Sept. 2.....	7·8	5·3	10·2	3·9	78·3
Oct. 28.....	8·4	5·1	10·6	4·0	78·3
Nov. 25.....	8·8	5·4	10·7	4·5	75·2
Dec. 30.....	10·0	5·2	10·7	5·5	70·4
1923.					
Jan. 6.....	9·9	5·1	10·7	5·4	71·0
Feb. 24.....	9·7	5·2	10·6	5·3	71·1
Mar. 17.....	9·7	6·2	10·6	6·4	66·6
April 28.....	9·9	5·4	10·7	5·6	70·0
May 26.....	9·6	6·0	10·7	6·0	68·7
June 30.....	13·1	5·0	10·7	8·4	59·3
July 7.....	12·0	5·8	10·7	8·2	60·8
Aug. 4.....	10·9	5·2	10·7	6·5	66·6
Sept. 8.....	10·5	5·9	10·6	6·7	65·5
Oct. 27.....	10·5	5·4	10·7	6·2	67·7
Nov. 3.....	10·6	5·3	10·7	6·3	67·4
Dec. 29.....	11·3	4·8	10·7	6·5	66·5
1924.					
Jan. 26.....	10·5	4·7	10·7	5·5	69·9
Feb. 23.....	10·3	5·7	10·7	6·4	67·0
Mar. 29.....	10·8	5·1	10·7	6·4	66·8
April 26.....	10·9	5·4	10·7	6·7	65·7
May 3.....	11·1	5·3	10·7	6·8	65·3
June 28.....	10·8	5·6	10·7	6·8	65·7
July 5.....	10·7	5·5	10·8	6·3	64·9
Aug. 30.....	10·6	5·0	10·8	6·0	67·5
Sept. 27.....	10·4	4·6	10·8	5·4	70·4
Oct. 4.....	10·5	4·6	10·8	5·4	69·9
Nov. 29.....	11·1	5·0	10·8	6·4	65·8
Dec. 27.....	11·4	4·5	10·8	6·2	66·4
1925.					
Jan. 3.....	11·6	4·8	10·8	6·9	64·0
" 10.....	11·3	5·2	11·3	6·3	66·9
" 17.....	11·1	5·4	12·5	5·1	74·2
" 24.....	10·9	5·7	13·0	4·8	76·6
" 31.....	11·3	5·5	13·0	4·9	75·8
Feb. 7.....	11·0	5·6	13·5	4·3	78·3
" 14.....	10·7	6·0	14·0	3·8	82·4
" 21.....	10·7	6·1	14·0	3·9	81·9

* Notes of other banks for which liability was assumed in June, 1924, in terms of section 15 (3) (c) of Act No. 31 of 1920, are not, it is understood, included in the Bank's weekly statement as a note liability. In consequence of this, it is not possible to ascertain from the published return of the Bank the full note circulation. (See also note to Annexure 11.)

† The percentages in column 5 do not represent the exact ratio of cash to notes and deposits. Owing to the practice referred to in the preceding note, it has been deemed preferable to take the Bank's published ratio of cash to total liabilities to the public as the head "Other Liabilities" in the Bank Return evidently includes liabilities to the public as well as liabilities to stockholders.

SOUTH AFRICAN BANKS.

Liabilities to the Public in the Union and Cash Assets in the Union (000's omitted).

	Notes.	Deposits.		Total.	Coin and Bullion, including Gold Certificates.	South African Reserve Bank Notes.	Balances in Reserve Bank.	Total.	Percentage of Cash to Liabilities to Public.	Advances and Discounts in the Union.
		De-mand.	Time.							
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	£	£	£	£	£	£	£	£	%	£
1913.										
June 30	2,303	35,977		38,280	6,908	—	—	—	18.0	33,019
Dec. 31	2,263	34,287		36,550	7,064	—	—	—	19.3	32,954
1914.										
June 30	2,104	33,341		35,445	6,978	—	—	—	19.7	31,565
Dec. 31	2,374	35,741		38,115	6,307	—	—	—	16.5	29,697
1915.										
June 30	2,593	40,056		42,649	6,645	—	—	—	15.5	28,241
Dec. 31	2,680	40,991		43,671	6,587	—	—	—	15.0	30,152
1916.										
June 30	2,758	43,648		46,406	6,176	—	—	—	13.3	33,115
Dec. 31	3,381	43,913		47,294	5,558	—	—	—	11.7	36,828
1917.										
June 30	3,943	48,323		52,266	5,793	—	—	—	11.0	36,587
Dec. 31	4,527	52,070		56,597	6,172	—	—	—	10.9	35,842
1918.										
June 30	5,426	58,937		64,363	6,600	—	—	—	10.2	38,563
Dec. 31	6,269	63,502		69,771	6,851	—	—	—	9.8	48,502
1919.										
June 30	6,572	75,279		81,851	7,532	—	—	—	9.2	49,871
Dec. 31	7,984	83,073		96,057	7,303	—	—	—	7.6	53,538
1920.										
Mar. 31	9,011	94,365		103,376	7,644	—	—	—	7.3	56,356
June 30	8,799	86,082		94,881	9,704	—	—	—	10.2	63,920
Dec. 31	9,066	78,145		87,211	10,365	—	—	—	11.8	69,911
1921.										
Mar. 31	8,870	75,700		84,570	11,083	—	—	—	13.1	65,630
June 30	8,535	41,887	29,770	80,192	6,495	—	5,699	12,194	15.2	61,698
July 31	8,866	39,304	31,118	79,229	6,046	—	5,839	11,885	14.9	—
Aug. 31	8,443	40,004	30,561	79,008	5,842	—	7,189	12,831	16.2	—
Sept. 30	8,698	39,972	30,386	79,056	6,351	—	7,493	13,844	17.5	56,675
Oct. 31	8,458	40,005	29,645	78,708	6,451	—	7,331	13,782	17.5	—
Nov. 30	8,376	40,612	29,498	78,486	6,569	—	7,130	13,699	17.4	—
Dec. 31	8,764	42,866	28,421	80,051	7,122	—	6,520	13,643	17.0	54,999
1922.										
Jan. 31	8,279	43,677	27,613	79,569	6,957	—	7,366	14,323	18.0	—
Feb. 28	8,125	44,408	26,887	79,421	6,981	—	7,358	14,339	18.0	—
Mar. 31	8,297	42,184	27,983	78,464	6,935	—	7,118	14,053	17.9	53,429
Apr. 30	8,101	40,194	28,337	76,631	6,470	512	6,229	13,211	17.2	—
May 31	7,760	39,420	27,896	75,076	6,236	744	6,279	13,310	17.7	—
June 30	7,597	40,231	27,068	74,896	4,775	3,229	6,142	14,147	18.8	50,640
July 31	3,734	39,170	27,592	70,496	5,847	2,420	5,528	10,795	15.3	—
Aug. 31	2,604	38,955	27,944	69,503	2,177	2,799	5,250	10,238	14.7	—
Sept. 30	2,012	38,186	27,716	67,914	1,992	1,992	4,932	9,026	13.2	48,911
Oct. 31	1,665	39,796	26,285	67,746	1,899	2,548	4,974	9,421	13.9	—
Nov. 30	1,428	40,780	29,606	68,811	1,837	2,679	5,276	9,792	14.2	—
Dec. 31	1,236	40,848	25,450	67,534	1,761	2,937	5,156	9,854	14.5	46,200

	Notes.	Deposits.		Total.	Coin and Bullion, including Gold Certificates.	South African Reserve Bank Notes.	Balances in Reserve Bank.	Total.	Percent- age of Cash to Liabilities to Public.	Ad- vances and Dis- counts in the Union.
		De- mand.	Time.							
	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	£	£	£	£	£	£	£	£	%	£
1923.										
Jan. 31	1,072	43,428	23,535	68,035	1,862	3,239	5,093	10,194	14.9	—
Feb. 28	987	41,898	23,406	66,291	1,747	2,995	5,394	10,137	15.2	—
Mar. 31	895	40,163	23,220	64,278	1,600	2,220	5,371	9,191	14.3	43,842
Apr. 30	796	39,961	23,495	64,252	1,614	2,590	5,512	9,717	15.1	—
May 31	765	39,788	22,902	63,455	1,590	2,556	5,797	9,943	15.6	—
June 30	740	38,058	22,123	60,921	1,520	5,010	5,029	11,559	18.9	40,837
July 31	705	38,257	21,817	60,778	1,577	3,513	5,280	10,370	17.0	41,645
Aug. 31	663	36,432	21,108	60,202	1,580	3,003	5,681	10,264	17.0	40,632
Sept. 30	639	36,490	21,660	58,789	1,499	2,656	5,119	9,274	15.7	40,172
Oct. 31	617	38,336	20,741	59,695	1,560	2,858	5,348	9,766	16.3	39,448
Nov. 30	589	36,838	21,144	60,571	1,578	2,568	4,909	9,056	14.9	39,513
Dec. 31	571	40,931	20,605	62,107	1,519	3,086	4,862	9,467	15.2	38,722
1924.										
Jan. 31	555	42,341	20,095	62,991	1,641	2,968	4,907	9,517	15.1	37,898
Feb. 29	542	40,385	20,411	61,338	1,584	2,509	5,812	9,895	16.1	36,003
Mar. 31	506	39,379	19,896	59,780	1,606	2,435	5,282	9,324	15.5	36,224
Apr. 30	486	37,926	20,220	58,632	1,621	2,733	5,543	8,997	16.8	36,731
May 31	447	37,285	20,475	58,207	1,509	2,286	5,682	9,477	16.2	37,089
June 30	*	38,095	19,446	57,541	1,423	2,584	5,533	9,541	16.5	36,050
July 31	*	37,557	19,399	56,956	1,459	2,763	5,260	9,482	16.6	36,754
Aug. 31	*	35,906	20,263	56,169	1,400	2,499	5,038	8,937	15.9	37,142
Sept. 30	*	36,888	19,835	56,223	1,423	2,451	4,807	8,682	15.4	37,057
Oct. 31	*	37,095	19,530	56,625	1,402	2,372	4,992	8,768	15.4	37,293
Nov. 30	*	37,106	20,609	57,805	1,369	2,523	4,951	8,842	15.2	37,367
Dec. 31	*	38,571	20,065	58,636	1,303	2,962	4,624	8,889	15.1	36,552

*Under section 15 (3) (c) of the Currency and Banking Act, other banks were required to pay over the amount of their outstanding notes to the South African Reserve Bank, the latter being responsible for their redemption. Although no note liabilities are shown in the banks' monthly statements or in the Treasury's monthly summary issued since May, 1924, an amount which the Commissioners have been unable to ascertain is owing by the National Bank of South Africa Ltd., to the South African Reserve Bank in respect of outstanding notes of the Bank of Africa, Ltd., the Natal Bank, Ltd., and the National Bank of the Orange River Colony, Ltd.

ANNEXURE 12.

UNION OF SOUTH AFRICA.

Borrowings of Union Government in London, excluding Imperial Government temporary advances received and repaid in respect of war services.

Financial Year ended 31st March.	Amount Raised by Stock or Debentures.	Amount Raised by Treasury Bills and Advances from Banks.	Stock or Debentures Repaid or Cancelled.	Treasury Bills and Advances from Banks Repaid.	Net Borrowings.	Repayments or Cancellations in excess of Borrowings.
1.	2.	3.	4.	5.	6.	7.
1913-14.....	£ 8,000,000	£ 6,000,000 *713,000	£ 280,740	£ 2,000,000 *1,313,000	£ 11,119,260	—
1914-15.....	4,000,000	*611,000	182,100	4,000,000 *611,000	—	182,100
1915-16.....	3,000,000	*221,210	281,484	*221,210	2,768,516	—
1916-17.....	8,384,000	—	249,412	—	8,134,588	—
1917-18.....	—	—	1,151,349	—	—	1,151,349
1918-19.....	—	—	1,020,191	—	—	1,020,191
1919-20.....	—	—	151,901	—	—	151,901
1920-21.....	—	3,000,000 *1,090,000	109,806	*1,090,000	2,890,194	—
1921-22.....	14,500,000	8,000,000 *3,770,000	87,545	9,000,000 *3,770,000	11,462,455	—
1922-23.....	—	8,000,000	173,604	4,000,000	3,826,396	—
1923-24.....	13,000,000	3,000,000 *2,063,567	6,516,164	7,000,000 *2,063,567	2,483,836	—
1924..... (Apr. 1-Dec. 31)	8,000,000	*1,720,000	1,980,900	*1,720,000	6,019,100	—
£	58,884,000	36,188,777	12,085,196	36,788,777	48,704,345	2,505,541
	Net sum borrowed abroad—1st April, 1913, to 31st December, 1924.....				<u>£46,198,804</u>	

* Advances from banks.

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Africa—Happenings in Germany in the earlier days the result of a wild speculation—Recent flight of capital from Germany to gold standard countries—459-466—America, Sweden, Germany, the Netherlands, Switzerland on the gold basis or dollar parity—British sterling will continue to rise in terms of gold—Speculators have not played a big part after rise of sterling—Other factors than the speculative ones in play—Altered attitude of America—Large credits given to Germany by America—467-478—Functions of the Reserve Bank—Problem of open accounts—Encouragement of bills by the retailer—Financial inducement to the man who uses bills, this to be a matter between the banks and Reserve Bank—479-485—Control by Reserve Bank upon credit in South Africa—Competition to some extent with other banks—Some years before South Africa's rate will approximate that of older countries like America—Time not yet ripe for Reserve Bank to compete more extensively in the market for bills—On return to gold, the time will have arrived for the Reserve Bank to get more control—Only temporary loans by the Reserve Bank to the Government are justifiable—Comparison with the American Federal Reserve Banks—486-511—Opinion expressed that unless the Reserve Bank functions more vigorously public will agitate for a State bank—Banks can reduce buying and selling rate of exchange, otherwise the Reserve Bank should step in—Effectiveness of the Reserve Bank in quoting exchange on Europe and also internally—Fixing of the margin by banks—512-526—Competition of Reserve Bank—5½ per cent. quoted at present moment; rediscounting of Reserve Bank—527-538—Increase of branches of South African banks during the war; suggestion that that increased the use of cheques—No test applicable to an excess of notes—Present circulation of notes in the Reserve Bank not excessive—Reserve Bank will automatically take the place it ought to take—Function of Reserve Bank to provide capital for other banks 539-553—Central bank in Java—Necessity for South African Reserve Bank to function properly—554-559.

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]Drain of gold (*see* Gold, Drain of).

]Earmarked gold, 4402-4.

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]Economic laws, immutable if we understand them, 2685-6.

]Economist, *The*, cited, 708A.

]Education as to value of monetary unit difficult, 2437.

]Efficiency on the mines, 144, 1859.

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]Epstein, Maurice George (Analysis of his Evidence. QQ. 2473-2532):

In favour of returning to gold standard with restrictions—Guarantee necessary—more elasticity required for development of industries—2473-2485—London no longer the money market of the world—2486—Inevitable tendency towards socialization—Legislation for State bank—Need of capital—

Lack of development, e.g. diamond industry—2487-2495—
 Establishment of a State bank sufficient guarantee for giving
 of credit in this country—Country must provide funds—2496-
 2500—Standard of life determined by wages of black labour—
 Competition between black and white—2501-2504—Develop-
 ment towards public control in the public interest—Reserve
 Bank to remain as well as State bank—Functions of Reserve
 Bank—2505-2510—State bank would issue notes—Bank
 publicly controlled, cf. Australian method—Grants by Govern-
 ment—Government promising against itself—2511-2517—By
 issuing notes (directly by Government) there would be an
 immediate drop—Effect on export trade—Not necessarily the
 same drop by issuing notes to the Government on establishment
 of a State bank—2518-2520—Purchasing power of country
 can in some cases be increased by issuing more paper, e.g.
 Germany—2521-2526—Wages should go down for some time
 by the adoption of the gold standard, and then remain
 stationary—Demand for labour would attract white immigrants
 from abroad—2527-2532.

Evans, Samuel (Summary of his Evidence. QQ. 560-812):

Mr. Samuel Evans, Chairman and Managing Director of the
 Crown Mines, Limited, giving evidence in his private capacity,
 was of opinion that South Africa should definitely return to the
 gold standard on the 1st July, 1925, without any restric-
 tions, and that an announcement to that effect should be made
 at an early date. The importance of gold to South Africa could
 hardly be exaggerated. It was to their interest that it should
 be generally used as money in South Africa and in the rest of
 the world, and that that state of affairs should be brought
 about as soon as possible. They had much to lose and nothing
 to gain by delay. A further rise in prices and in the cost of
 living appeared imminent, if not already under way, and this
 might, and, under existing conditions, most likely would, take
 place without any increase, and might even coincide with a
 decrease in, or the elimination of, the premium on gold. The
 index figures of wholesale prices and of the cost of living showed
 that the commodity value of gold was at present considerably
 higher in South Africa than in Europe and America. That was
 an abnormal condition which was not likely to last. Indeed,
 it was certain that sooner or later wholesale prices and the cost
 of living in South Africa would rise to a level approximating
 that of Europe and America. Should that occur whilst there
 was uncertainty in this country as to the restoration of the
 gold standard, prices and the cost of living might advance to
 excessive heights. Once that took place the mischief was done,
 and recovery would be extremely difficult and troublesome,
 even more difficult and troublesome than it was after the
 inflation during 1919-1920. The mining industry had lost
 infinitely more through increases in costs due to the substitu-
 tion of inconvertible paper money for gold than they had
 gained by the premium. The working costs of the gold mines
 of the Transvaal had not gone up to the same extent as the
 working costs of gold mines in other countries, largely because
 there had been comparatively little increase in the cost of the
 natives employed by the mines. However, in the event of
 another inflation, South African employers might be compelled
 to raise native wages substantially. A reduction to the old
 level later on would be almost impossible. Now a permanent
 rise in the cost of native labour would injure not only the gold
 mines, but all other employers in South Africa, particularly the
 farmers. For instance, an increase in native wages generally
 might mean a very serious additional permanent burden to the
 South African wool producer, who was paying to-day for
 shearing sheep by natives one-third or less of the cost of shear-
 ing to the Australian wool producer.

On the question of linking the money of South Africa with
 British sterling, there was a great deal to be said in favour of
 a uniform currency for England and South Africa, but it

appeared to him that as a matter of practical politics such a state of affairs could only be brought about by the resumption of specie payments with free gold markets in both countries. The restoration without delay of the pre-war gold standard was unquestionably in the interests of South Africa. On the other hand, there was in England a large and influential body of opinion in favour of a managed-money policy, having as its aim the stabilization of prices with or without gold. In fact, there was conclusive evidence that since the beginning of 1923 Great Britain had in reality substituted a price stabilization policy for the progressive deflation recommended by the Cunliffe Committee [see Appendix 10 (a) to (e)]. It would appear that the agreement for the repayment of the American debt was concluded somewhat hastily at the beginning of 1923, because of Mr. Baldwin's belief in the possibility in the near future of permanently depreciating the value of gold by means of the price stabilization plan [see Appendix 10 (b)]. In a work recently published, entitled "Is Unemployment Inevitable?" prepared by a Committee of British Economists, of which Mr. W. T. Layton, editor of the *Economist*, acted as chairman, it was stated that unless "American prices move upwards"—that is, unless gold is depreciated in America—"the Cunliffe policy must remain in abeyance." That being the case, the danger of a further depreciation of gold in England was a very real one. As he (Mr. Evans) had pointed out in a letter to General Smuts, dated 26th September, 1923 [Appendix 10 (a)], Mr. J. M. Keynes and other influential authorities held strongly that England had "a big interest in gold having as low a value as possible." It was urged that on every ground "it is a British interest (except for shareholders in gold mines) that gold should fall in value." He (Mr. Evans) felt convinced that all managed currency schemes would eventually fail, but they might succeed for a period long enough to bring about the ruin of South Africa. He therefore considered that it would be a grave and irreparable mistake for the Union Government to delay the restoration of the gold standard in South Africa pending the trial in England and elsewhere of managed currency plans. In the long run an early return to the gold standard would benefit South Africa from every point of view, particularly if accompanied by some reduction in the burden of taxation. The Union Government had, during a period of paper money inflation, over-staffed the public services and increased taxation beyond what the country could carry and continue to progress. It had been repeatedly asserted that the creation of the Reserve Bank and the currency and financial policy pursued at the beginning of 1920 had saved South Africa from disaster. It was argued that the Government and Parliament were forced to do what they did in order to prevent the country being drained of its gold. Why was the country being drained of its gold? It was being drained of its gold owing to the over-issue of paper money by the banks and the consequent lavish credit policy of some of the banks, and for no other reason. Clearly, the right way to prevent gold leaving the country at the beginning of 1920 was to stop the extravagant issue of paper money. Unfortunately, the Government accepted the view that there had been no over-issue of notes, that the quantity of paper money in circulation had had no material influence on prices, and adopted a policy aiming at economizing gold. A careful examination of all the facts by a competent authority would prove conclusively that the banking and currency policy followed in the early months of 1920 had done infinitely more harm than good. It aggravated the inflationary movement and led people to believe that high prices had come to stay, with the result that there was an orgy of extravagance on the part of the public and the Government, so that when the day of reckoning came in 1921 and later, there was a greater number of bankruptcies amongst farmers and commercial people than had ever happened in any similar

previous period in the whole history of South Africa. Moreover, that policy had left us with a burden of taxation heavier than that borne by few, if any, other European communities in the world. Under these circumstances it was not to be wondered at that South Africa was not attracting either immigrants or capital, and he felt convinced that it was safe to prophesy that South Africa was not likely to attract either immigrants or capital until there was a complete reversal of the currency and taxation policy inaugurated at the beginning of 1920.

He favoured a repeal of section *thirty-two* of the Currency and Banking Act, which provides a penalty not exceeding £500, or imprisonment for a period not exceeding two years, for selling or purchasing currency notes at a price other than their face value. It was an immoral provision designed to prevent the public discovering that they were being robbed by the over-issue of paper money.

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Exchange:

Absence of competition for, 2079; adoption of gold basis by South Africa likely to lead to stability in rate of, 608-13; banks have held South Africa-sterling, despite frequent pronounced changes in sterling-dollar rate and British indexes, 1130, 1999; benefits not passed on, 3004, 3468; business done outside banks, 4002; contracts advocated for South Africa in event of return to gold basis before England, 774, 776-9; direct, 2071, 2574, 3773; disadvantages of instability of, not avoided by linking with sterling, 1332; domestic, 296, 3760, 3762-5; effect of example on, 3971-4, 4045; effect of return to specie basis at 1st July, 1925, on, 651-4; effect on trade of rates of, 914; expenses incident to round about, 2412; fluctuations in, 444, 3831-7; forward contracts in, minimize risk, 771-3; forward contracts advocated for South Africa in event of return to gold basis before England, 774, 776-9, 4165-71, 4178-83; gambling in South Africa-London, 601; gold points, 2587-92; influence of depreciation of dollar on, 567; influence of investment and speculation on, 570; levy, 905, 2450, 3291; infrequency in fluctuations of South African, 2830; limits cannot be well controlled in absence of convertibility, 2587; maintenance of stability of, 1135; margin or spread between buying and selling, 3287, 3430-4; margin will be smaller if South Africa returns to gold, 3750; no machinery to break down monopoly of banks, 604; not competitive, 907; on London too high, having regard to relative price levels, 2091; possible variations in, unlimited, when one exchange is on gold basis and one on paper, 2591; preferential rate to gold mines, 2640; profits of banks, 2446, 4364; quoted on Amsterdam, 365-7; quoted on New York, 369-72; rate should fluctuate like any other price, 383; relative price levels, 2091; regulation of rate of, 2101-8; return to gold basis by South Africa should lead to less uncertainty as to relative values of British and South African currencies, 758-68; should South Africa resume gold payments, South Africa-sterling, might not be less unstable than in the past, 385, 2809; South Africa-sterling, out of harmony with price level, 3636; term "stability" examined, 2680; theory that trade position governs rates of, 2085; unsatisfactory method of quoting South African rates of, 987.

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- Genoa Conference, cited, 621, 687.
- George, James (Analysis of his Evidence. QQ. 1749-1880):
 Agitation on mines about 1916 for payment in gold—Labour feels that suspension of gold has prevented it from receiving as good wages as it was receiving in 1913-1914—Purchasing power of pound about three-quarters what it was in 1914—Paper money has resulted in reduction of real wages of labour—Banking system and currency—Labour leaders think that a return to the gold basis would be to the advantage of wages—1749-1762—If South Africa tied with sterling the South African pound would have to follow sterling on depreciation—1763-1765—On depreciation cost of living would rise, hence a demand for increased wages, which would be impossible to grant—1766-1769—Price of sundries—139 sundries, 54 food, fuel, light, and rent—Sundries taken as one-third of the cost of living—Practically a civil war because of ruling in regard to sundries—Inclusion of sundries in adjustments necessary—1770-1780—Further argument as to labour's increased demand for wages should depreciation take place—Increased efficiency necessary—Household economics—1781-1789—Statement that Government tries to influence the Commissions—Attitude of Commissions—1790-1794—Labour might be satisfied with an increase in wages equal to 75 per cent. of the increased cost of living—Possibility of appreciation—Resulting reduction in prices and wages—1795-1802—Wages reduced immediately on the fall of the premium—Labour would demand a time lag in reductions in wages at least equal to the time lag in the increases in wages—Psychological problem—Following of sterling in a lot of ups and downs would mean serious industrial problems 1803-1810—In the interests of labour to return to the gold standard—Principles of white labour equally applicable to coloured labour—"Found"—Desirable for Commission to hear a coloured man's views—Kadalie or Joint Council suggested—Difficult to make coloured labourers express their real opinions—1811-1833—Return to gold immediately advisable—Parity should be clinched now—"Cursing" of notes by labourers—60 to 70 per cent. organized white labour in this country—No organized federations in the Transvaal—Amalgamated Engineering Union, Wood Workers' Union, National Union of Railway Servants, unionism in South Africa—1834-1854—Cost of living as compared with 1914 not 16 per cent. higher—All-round speeding up and increase in the intensity of labour—Larger bonus now than in 1921—Non-payment for overtime—Advance in America—1855-1870—Retiring allowances, pensions, etc., of labourers—Phthisis Board and Phthisis Medical Bureau—Tentative agitation on the part of labour for retiring allowances—1871-1876—Report of Economic Conference—Strikes in 1913 and 1914—1877-1880.

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really affected South Africa; fewer risks involved with the gold standard, but outflow of gold will have to be faced—2189-2203—Recommendation that South Africa should return to the gold standard if she can maintain it; the fact that South Africa produces gold is not an important one in the gold standard position—2204-2209—Success of the United States in maintaining stability—2210-2213—If South Africa is going to return to gold soon, announcement should be made promptly—2214-2216—Recommendation to go on to the decimal system if South Africa returns to gold, but preferably South Africa should stay on the sterling basis—2217-2221—Difference between buying and selling rate of cables five-eighths or seven-eighths—Difference between telegraphic transfer and sight period $\frac{1}{2}$ per cent.—No time element in the telegraphic transfer—Wider margin than before the war—Difference within the gold points before the war—Formerly it was about $\frac{1}{2}$ per cent.; now it is $\frac{1}{4}$ per cent., because of risk involved in retaining in London—2222-2260—Reserve Bank not an ordinary competitive bank—2261-2265—Margins in rates—2266-2269—Increasing of balances—Question of profit in a matter of this kind—Policy has been to have a certain amount of funds in London, which have been reduced—Justification for the wide margin between the buying and selling rate—2270-2292—Reserve Bank a bank for other banks—Does not rediscount with the Reserve Bank—Not in favour of competition of the Reserve Bank with other banks—2293-2312—Standard Bank, Capetown, the largest bank in the country—Discussion of Federal Reserve Banks in America—Comparison with Australia—Egypt—2313-2323—Cash reserves required, including till money, 12, 13, or 14 per cent.—3 per cent. kept in the Reserve Bank against time deposits—2324-2338—Reserve Bank represents two member banks—Comparison with Java banks and central banks in Europe—2339-2346—Reserve Bank serves the public interest best by acting as a bankers' bank—Not in favour of a State bank—Simply a cry for unjustified credit—2347-2359—Competition of a State bank would mean cutting down of banking profits and curtailment of banking facilities—Stage of development of the country makes a considerable difference—2360-2364—Running of new branches entails expense—2365—Our rate a fair rate because country is isolated and remote—Forward exchange rates—No demand for forward exchange—2366-2377.

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